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MISSION STATEMENT

To make Ontario Hydro a
leader in **energy efficiency** and
sustainable development,
and to provide its customers
with **safe and reliable** energy
services at **competitive prices.**



FINANCIAL SUMMARY

FINANCIAL HIGHLIGHTS

(millions of dollars)

	1994	1993
Revenue	8,732	8,363
Net income (loss)	587	(3,604)
Total assets	44,085	44,706
Cash used for investment in fixed assets	997	1,871
Net retirement of debt for long-term financing	963	1,639

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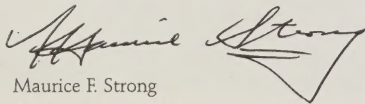
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LETTER TO THE MINISTER

To the Honourable C.J. (Bud) Wildman, Minister of Environment and Energy:

On behalf of the Board of Directors, I am pleased to submit to you Ontario Hydro's report of the financial position of the Corporation, with discussion and analysis of issues and initiatives for 1994 and beyond.

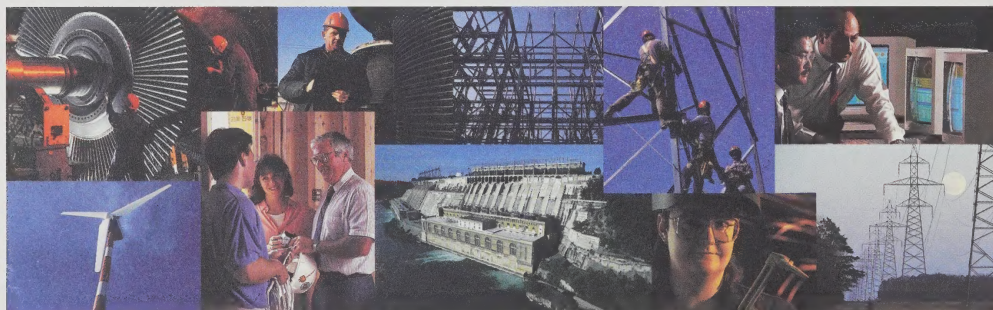
We want to thank your staff at the Ministry of Environment and Energy for their cooperation extended over the year.

A handwritten signature in black ink, appearing to read "Maurice F. Strong". The signature is fluid and cursive, with a large, stylized "S" at the end.

Maurice F. Strong
Chairman

CORPORATE PROFILE AND 1994 ORGANIZATION

Ontario Hydro is the largest electric utility in North America in terms of installed generating capacity. Its customers include 306 municipal electric utilities serving more than 2,800,000 customers, 954,440 retail customers and 103 large direct customers. The Ontario Hydro supply system includes

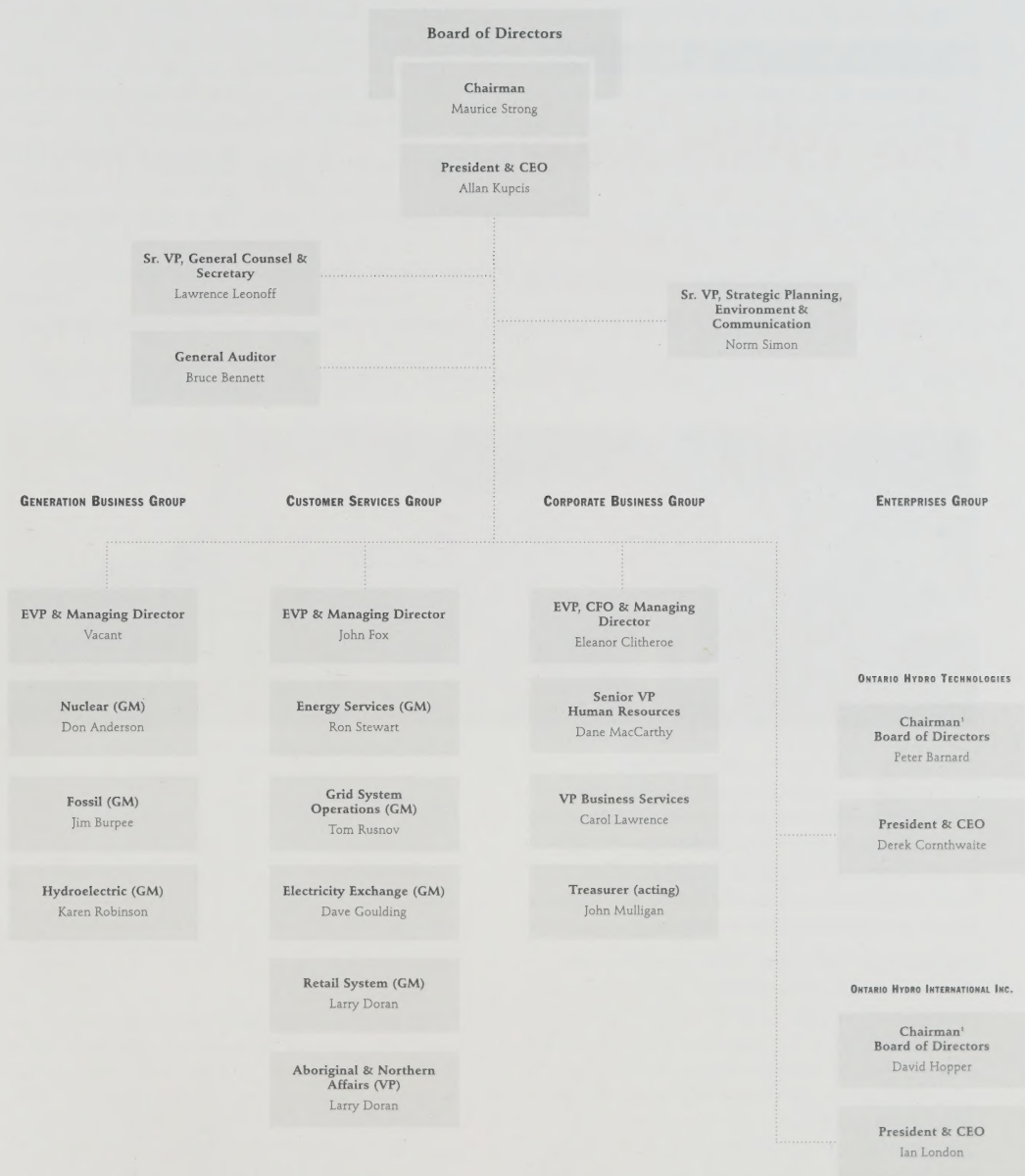


69 hydroelectric stations, 5 nuclear stations and 6 operating fossil-fuelled stations. Total system capacity is approximately 34,000 megawatts, transmitted across 29,000 kilometres of transmission lines and 109,000 kilometres of distribution lines. Ontario Hydro was created in 1906 by provincial statute and operates today under the Power Corporation Act of Ontario.

Ontario Hydro is a self-sustaining corporation without share capital. Bonds and notes are issued by Ontario

Hydro and are guaranteed by the Province of Ontario. The Corporation is governed by a Board of Directors consisting of up to 22 members. The Chairman and Members of the Board are appointed by the Lieutenant-Governor-in-Council, and the President is appointed by the Board. The Board of Directors recommends to the Government of Ontario that it appoint either the Chairman or the President as Chief Executive Officer.

ONTARIO HYDRO ORGANIZATION

¹non-executive chairman

MESSAGE FROM THE CHAIRMAN AND THE PRESIDENT

The 1990s have been a humbling decade for many large institutions and industries, both public and private. Public attitudes and customer expectations have changed dramatically. As individuals and as groups, people no longer feel that they must adjust their own aspirations to the operational

Maurice F. Strong, *Chairman*Dr. Allan Kupcis, *President & CEO*

needs of large organizations, however well such organizations may have served them in the past. The recurring question all such institutions, including Ontario Hydro, must answer is this: What have you done today to earn my business and my confidence?

One significant aspect of this shift in attitude is that the perceived differences between public and private enterprises are evaporating under increased scrutiny by customers, taxpayers and ratepayers. The pressure on private corporations to act in concert with the public good, however defined, is more than matched by the demand that public institutions operate in line with private-sector business principles. Ontario Hydro is one of the most striking examples of the great power of this conceptual change. A few short years ago, Hydro was a seemingly unassailable public power monopoly – a

defining feature of our society that appeared likely to go on forever. We now know there are no guarantees that this will be the case. We understand that Hydro can survive in the long term only if it continues to adapt aggressively, in a businesslike fashion, to an increasingly open and competitive environment in the energy services industry.

There can be no doubt that Ontario Hydro's competitiveness and that of its customers are strongly linked. Without successful customers, and more of them, Hydro can neither grow now nor adequately fulfil its responsibilities toward future generations. And without an efficiently managed, competitively priced supplier of reliable energy, Ontario businesses will lose ground in the ceaseless global race to reduce input costs, putting the economic future of the province at risk. This sym-

biosis, however, may not last. As the continental drift to deregulation in energy services gathers momentum and begins to affect Ontario significantly, our customers will have more alternatives to what we can provide and can be expected to pursue them when they improve their own competitiveness, even if that means leaving Hydro behind. The only sure way to prevent this from happening is to integrate our corporate needs with those of our customers.

Throughout 1994, Ontario Hydro continued its transformation from a commodity supplier to a customer-driven business that will be able to meet the competition that is coming and successfully enter new markets as they open up. Several major steps have been taken toward these ends at the corporate level:

- Hydro has established a transfer pricing framework in which all our generation units compete, in terms of price and reliability, to supply customer demand. This internal competition, which includes an electricity spot market, will sharpen costs, systems and delivery.
- New Corporate Performance Measures have been adopted that can quantify progress in four key results areas: customer satisfaction, stewardship of the province's resources and environment, employee development and financial performance.
- A Performance Achievement Plan that links the compensation of corporate officers and executives to overall corporate performance in the four key results areas is now in place. The plan establishes very specific, measurable management goals, which will be refined with experience and changing market needs.
- Decision criteria for sustainable energy development have been developed for use in evaluating whether any proposal, at the corporate or business unit level, advances or hinders the goal of long-term sustainability, so that future competitiveness is protected.
- The Leadership Project is under way. This effort acknowledges that the skills needed to take Hydro successfully into the 21st century are different in many ways from those that built the company in the past. It will identify the talent pool for the company's future leadership and create the systems to develop it.

These corporate initiatives to create a more accountable, more businesslike and more customer-oriented Ontario Hydro are being amplified at the business unit level in myriad ways. Hydro's restructuring – really a reinvention – pushes responsibility and decision-

making deeper into the organization, closer to the customers. Business units now have their own individual balance sheets, and a premium has been placed on behavior that fosters innovation and greater competitiveness. This new autonomy, however, must be exercised in an atmosphere of cooperation and interdependence, to ensure that individual achievements are also measured by how well they serve the overall goals of our mission.

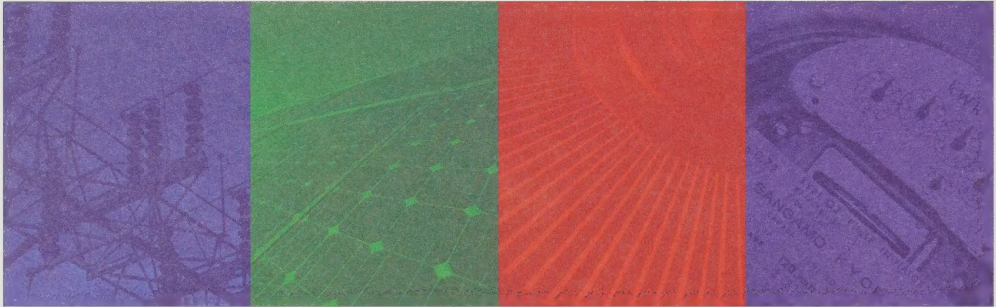
We have taken the initiative to position Ontario Hydro on the leading edge of the changes occurring in our industry, rather than waiting for them to be forced on us.

This is why we are now departing from our traditional manner of reporting on business unit operations during the previous year. Instead of presenting a report on our activities unit by unit, we have asked each business unit to report on what they have done to advance the corporate mission's four elements: energy efficiency, sustainable development, safety and reliability, and competitiveness. We believe this new approach will give our customers a more comprehensive, integrated view of Ontario Hydro's transformation and how it is proceeding.

Although much has been accomplished in the past two years, the need for adaptive strategies remains urgent. Even more profound changes than those we have already experienced in the energy industry are on our horizon. Nevertheless, there are many reasons for Ontario to be optimistic about its energy future. We have taken the initiative to position Ontario Hydro on the leading edge of the changes occurring in our industry, rather than waiting for them to be forced on us. We have the resources and the technological capability to be competitive for decades to come. Our expertise in many energy-related areas is valued around the world. Our deep-rooted social and political values compel us to think about the long-term effects of our present decisions. More than most places on Earth, we are capable of sustaining our abundant resources and standards of life. But we must let the past yield to the future. As you will read in this report, this is exactly what we are doing today at Ontario Hydro.

COMPETITION AND CUSTOMER CHOICE: REDIRECTING ONTARIO HYDRO

In the midst of one of the most extensive and prolonged corporate restructurings in Canadian history, five major challenges continue to confront Ontario Hydro. How effectively we are responding to each of these challenges in the short term will determine how well Hydro can fulfil



its long-term mission and help ensure a secure and sustainable energy future for the province.

FINANCIAL PERFORMANCE

The most immediate and public concerns about Hydro's sustainability are summarized on the balance sheets of the past few years. Despite rate increases of almost 40 per cent since 1990, the company was in a seriously weakened financial situation by 1993. Much of this was attributable to declining electricity demand and the severe and prolonged recession of 1991 through 1994. Compounding this squeeze was the new capacity coming on line and costing more than had been planned. Like other electric utilities, Hydro now has a surplus generating capacity of some 20 per cent.

A strong financial performance in 1994 has helped relieve some of the immediate fiscal pressure on the

Corporation and underscored the value of its considerable assets. Ontario Hydro is now showing improvement in its financial picture and forecasts that debt will be reduced by \$3.6 billion between 1995 and 1997. Net income during the same period is expected to range from \$600 million to \$850 million per year. If these predictions hold, which is of course uncertain, there will be an improvement in Hydro's debt ratio from .90 at the end of 1994 to .85 by the end of 1997. Although this will mark significant progress, the ratio is still high by commercial standards and will constrain competitive flexibility for several years to come.

For these reasons, the effort to cut costs and improve productivity without sacrificing safety and reliability will continue to dominate much of the business planning process in every business unit, as it did last year. Corporate Performance Measures combine key factors

of reliability, safety and environmental impact with net income, interest coverage, debt ratio and unit energy costs (the total costs of energy production divided by the energy delivered). These are the indicators of movement toward greater efficiency, sustainability and competitiveness.

CUSTOMER EXPECTATIONS

The downsizing and financial retrenchment at Ontario Hydro had been presaged by the hard experience of our customers, who had been forced to deal with debt and weak balance sheets in the late 1980s, in some cases as the painful legacy of the expensive mergers and acquisitions that characterized that decade. Those that survived did so largely through great improvements in productivity and quality while still slashing their costs. They demanded in turn that their suppliers, including Hydro, do the same. Residential consumers of electricity who had lost their jobs or, if they were fortunate, were merely obliged to do more for less, likewise expected Hydro to respond to their economic anxieties and, at a minimum, stop contributing to them.

Although stabilizing rates added to the immediate financial pressures on Hydro, it was the necessary first step toward improving customer relationships by explicitly responding to customers' most important and immediate need. Hydro has indeed responded: the cost of electricity is actually declining in real terms, and we have changed our pricing strategy so that competitive pricing dictates our costs. But rate stabilization is only a first step. We are also developing a wide range of technical and information services that, according to market research, are needed and valued. If Hydro doesn't provide its customers with the right mix of cost-effective energy services, others will.

To track progress in customer satisfaction, Hydro's Corporate Performance Measures prescribe that it be measured annually by consulting very closely with many representatives from all customer groups. This information is expected to bring an ever-sharper focus to corporate objectives. Ontario Hydro intends to be guided into the future by a new compass that always points to its customers.

LIMITED LOAD GROWTH

It is unlikely that electricity demand in the province will match Ontario Hydro's generating capacity before the early part of the next decade. Much of the manufac-

turing lost during the recession cannot be expected to return. Hydro's emphasis on helping its customers to become more energy-efficient will improve their competitiveness and keep them in Ontario. It will also help attract new industry. Even in a robust recovery, those industries considering a move to Ontario or expansion here are being offered – and are often accepting – attractive rates for locating in other jurisdictions. More and more of Hydro's large customers are considering self-generation, as the technology to do so declines in cost. The economy generally is moving from resource extraction to commercial and knowledge industries. And the drive for greater energy efficiency in all markets – industrial, commercial and residential – has only begun.

Compounding our own surplus is that of our neighbouring utilities, who face many of the same challenges as Ontario. This makes the protection of Hydro's existing market share a critical corporate priority. Even a small drop in its load will affect remaining customers, who will be even more motivated to demand and exploit more options.

Eighty-five per cent of Hydro's business comes through wholesale customers, making it vulnerable to lower-cost competition for raw electricity supply. Where these customers, such as manufacturing operations or municipal utilities, have a choice of suppliers, any generating utility whose product is not competitively priced will find its load dropping quickly.

Various strategies are being developed by Ontario Hydro to retain load and, at the same time, seek opportunities for growth that are consistent with our commitment to sustainable development. Some have been implemented; some require regulatory approval. Rate options, investments in system upgrades to better ensure service reliability, and advice on how to reduce energy consumption and improve energy productivity – all these means of load retention were further developed in 1994.

DEREGULATION AND COMPETITION

A deregulated, continent-spanning free market in electrical energy services, down to the retail level, is a realistic prospect facing Ontario Hydro and the entire province. There is time to prepare for this, but not much – perhaps no more than eight to ten years. It is not outside the realm of possibility that if increased competition and change come too quickly, and we are

not ready for them, they could result in Hydro's having to carry stranded generation assets, at a cost to taxpayers and customers. There is a need to press on with transition arrangements to reduce this risk and to secure Ontario Hydro's customer base. These arrangements must not, however, disadvantage Hydro's customers in the short term. Nor can they diminish the sense of urgency that drives Hydro's competitiveness initiatives.

Ontario Hydro does possess formidable competitive advantages and is determined to marshal them effectively. It is the largest utility in North America, in both generating capacity and primary sales. Despite the major capital cuts announced in 1994, Hydro will still be investing about \$1 billion in capital projects every year during the next ten years. This is primarily directed at maintaining current productive assets.

It has been proven many times, however, that mere size is not necessarily an advantage in a changing environment; it may in fact be a liability if it hinders flexibility. For this reason alone, Hydro's restructuring into smaller, more autonomous units makes adaptive sense. This process is not one of disaggregation. Our businesses are autonomous but not independent. A coherent response to the challenges we face is essential, since there is a natural interdependence among the different aspects of Hydro's business. This is why, in tandem with the devolution of more responsibility to the business units, there has been a simultaneous strengthening of the process of cooperative, corporate-led goal-setting.

Internal competition has been introduced into Ontario Hydro to push the development of the skills and attitudes that will be needed to survive and thrive in an open access environment. Through the Electricity Exchange (described more fully in the "Competitiveness" section of this report) the nuclear, hydroelectric, fossil-fuelled and even, in some circumstances, non-utility generation facilities will now compete on terms of price and reliability to supply the transmission grid.

It is imperative that Ontario Hydro be allowed to respond fully to competitive pressures in flexible, businesslike and competitive ways; the issue of when and how we will respond falls squarely in the realm of public policy. Legislative and regulatory change will be necessary to ensure the effectiveness and sustainability of Hydro's competitive strategies. We cannot respond to new realities in old ways.

RESPONSIBILITY TO THE FUTURE

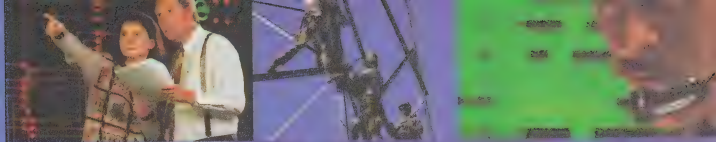
A commitment to competitiveness must be accompanied by a belief, embedded in the corporate culture, that sustainable development is the only road to a viable future in both economic and environmental terms. Business competitiveness cannot be achieved separately from environmental sustainability. Our understanding of the ecosystems that we affect and on which we depend has advanced too much now to go backwards on this issue, as has public consciousness of how resource decisions in the present affect the foreseeable future.

Ontario Hydro believes that leadership in respect of the environment and sustainable development is fully consistent with our business obligations and indeed contributes to our ability to meet them. Leadership is in fact smart business, both because it encodes efficiency in the use of resources in the working assumptions of the Corporation and because it helps build stronger bridges to customers.

At Ontario Hydro, these values have now been set down as specific, measurable objectives that must, as a matter of corporate policy, be factored into virtually all business decisions. Sustainable development indicators have been adopted that will track Ontario Hydro's performance and help set the agenda for continuing progress in this increasingly urgent area of concern for the province, the country and the globe.



Hydro's responses to these challenges will continue to evolve. Our mission is a journey, not a destination. We know that in none of our lifetimes can we ever reach the theoretical limits of efficiency, sustainability, safety and reliability, but we also know that we must continue to progress toward these goals. Ontario Hydro and its customers now live – and must make a living – in the most economically competitive era in human history. We have no choice but to respond in kind. The progress we have made in 1994 and the clear direction we have set for our future gives us confidence that we can – and we will.



ENERGY EFFICIENCY

Energy efficiency is the only way Ontario can successfully achieve the twin goals of competitiveness and sustainability. By reducing resource consumption while still meeting our energy needs, we can be both more productive in the present and more protective of the future.

ENERGY EFFICIENCY

Revitalizing Ontario's economy

and keeping it strong will depend on how aggressively Ontario Hydro and all of its customers become more energy-efficient. Open access to Ontario's transmission network, which is inevitable to some degree, may well result in lower electricity

prices in the short term. But there are natural limits to how low the cost of reliable power generation could go, even if all environmental considerations were thrown to the wind. Permanent energy cost savings can be realized only by reducing consumption.

Although they are in the same family, energy conservation and energy efficiency are not completely identical. Conservation means not using energy that isn't needed. Efficiency means getting the most from the energy that is needed. Conservation depends on human behavior; efficiency is technological in nature. The two often overlap, however, when people choose to invest in technologies that reduce unnecessary consumption of energy and make it more productive – a choice Hydro

has heavily supported, everywhere in the Ontario economy, for several years.

HYDRO'S ROLE IN THE DEVELOPMENT OF THE RETROFIT INDUSTRY

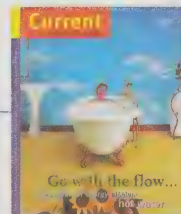
The energy efficiency retrofit industry is a very successful case in point. Recent advances in lighting, controls, motors and other energy technologies offer savings that hang like ripe fruit from a tree, but few ladders have been available to reach anything other than the lowest branches until Hydro began building them. The recent prolonged recession made it hard to find the necessary capital to invest in energy efficiency. This barrier, formidable enough, was compounded by two others. The energy efficiency marketplace was coordinated poorly

Performance and Achievements



New Conductors Save Energy

Refurbishing the transmission grid with new energy-efficient compact conductors greatly reduces transmission losses. Energy consumption in the Grid System Business Unit dropped by 126 GWh in 1994, nearly half the total corporate savings.



Practical Advice for Homeowners

Produced in partnership with five municipal utilities, *Current* magazine gave 180,000 Ontario households advice on using less energy for water heating without sacrificing comfort.

if at all, and the number of new products was often confusing, making building owners cautious about long-term commitments to "solutions" that might quickly become obsolete or, worse, not work as expected. In addition, the skills and expertise needed to conceive, design and implement comprehensive retrofit projects were relatively scarce.

Energy efficiency and the resulting savings and competitiveness were only part of the reason Hydro intervened in the marketplace to jump-start the retrofit industry. There were jobs to be gained – high-value engineering and skilled construction jobs. There were taxes to be saved by reducing operating expenses in public facilities, including hospitals, schools and arenas. There was economic development waiting to happen in the province's struggling but still promising energy and environmental technologies industry. And there were opportunities to reduce emissions to the environment.

Ontario Hydro played a seminal role in the creation of the Canadian Association of Energy Service Companies (CAESCO), which has developed standards for retrofitting that have gained recognition and acceptance in the marketplace. At about the same time, Hydro launched an incentives program, designed to leap over market barriers and accelerate the adoption of new technologies. To tie these initiatives together, energy analysts from Hydro gave commercial and industrial facility managers objective advice on how they could reduce costs and take advantage of the incentives programs. This information gave building operators more confidence in dealing with energy service companies and making technology investment decisions.

The energy retrofit industry is now a vibrant, \$1-billion-a-year industry in Canada, mostly in Ontario, and growing rapidly. Dozens of private energy service firms routinely execute high-quality projects. Banks, trust companies, and pension funds are now more willing to invest in what only two or three years ago was considered too ethereal to be secure: future energy savings – commodity investing in reverse. A high proportion of retrofit work has already been completed in public facilities, especially schools, and far more is planned, at all levels of government. Training programs in energy efficiency work are being conducted regularly at several Ontario colleges, as well as by unions and trade associations.

Ontario Hydro International, in partnership with Ontario consultants and energy services companies, is developing an international ESCO business. A commercial retrofit is almost completed in Brazil, and a 15-MW energy efficiency and co-generation project is under development in the Czech Republic. Similar opportunities are being explored in the Philippines and Thailand.

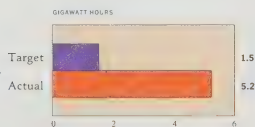
ENERGY EFFICIENCY CONSORTIUM

Retrofitting, however, was only the beginning. Although broad-spectrum financial incentives from Ontario Hydro are no longer required to promote awareness of the benefits of energy efficiency, barriers persist. To overcome them completely and help make energy efficiency one of the province's strongest domestic and export industries, the Energy Services Business Unit helped create the Energy Efficiency Consortium in late 1993. Made up of representatives from all major groups with an urgent interest in energy efficiency and its effect on the envi-



Fuel Cell Research Partnership

Ontario Hydro Technologies and Westinghouse have opened the world's first facility for testing pressurized solid oxide fuel cells, which are expected to become a cost-effective and efficient source of electricity in the future.



Internal Efficiency Exceeds Targets

By adopting measures such as more efficient station lighting and heating, the Hydroelectric Business Unit reduced internal energy consumption by 5.2 GWh, nearly four times its 1994 target.



Significant Savings from Retrofit

A Hydro study on this Brampton ice rink identified several ways it could reduce energy use, all of which are being implemented in a major retrofit. Community facilities such as this one offer significant savings opportunities.

ronment, the Consortium issued its report in October 1994, under the title *Accelerating Energy Efficiency in Ontario*. This landmark document records a historic consensus on what we must do together as a society to meet our energy needs reliably in ways that are competitive and sustainable. (See report summary on page 13.)

GREEN COMMUNITIES

Ontario Hydro is leveraging its energy efficiency expertise through Green Communities, a program of the Ministry of Environment and Energy in which 17 Ontario communities are participating. The program aims to assist local economic development in the industrial, institutional, residential and transportation sectors, focused on energy efficiency, water efficiency and waste reduction. Hydro is a partner in the program, along with municipal utilities, chambers of commerce, gas utilities, financial institutions and other locally active organizations that share the program's goals and can promote them. A participating community develops a strategic plan to identify areas of potential energy and water efficiency and economic and environmental benefits for the community. Funding comes from a variety of sources, with the Ministry providing up to 50 per cent of the eligible costs.

Under a major component of the program, Home Green Up, homeowners can request the services of a locally trained adviser who will show them how to reduce their use of energy and water, cut down on waste and pollution, and save money on their utility bills. A referral service for both financing and qualified local tradespeople helps homeowners implement the recommendations they choose.

Because of our extensive experience in community-based energy efficiency programs, Hydro has been able to contribute significantly to this program in several cost-effective ways. We share our knowledge fully with the ministry, and, in partnership with participating local utilities, assist in the development of many of the program's key features, such as project management, training and evaluation. Hydro helps customers further reduce electricity bills by leveraging the opportunity provided by the adviser's visit and by providing low-cost energy-efficient products that are installed immediately. Home Green Up is proving to be a successful model for implementing energy efficiency, and Hydro will continue to participate as it moves into other communities.

INDUSTRIAL PARTNERSHIPS

The task of retaining industrial customers, keeping them healthy and in Ontario, is greatly aided when they can be offered stable rates and a wider range of rate options, giving them more control over their energy costs. Just as important is greater energy productivity, particularly in highly competitive industries in which energy is a major input cost. Several major projects undertaken by the Energy Services Business Unit in 1994 provide examples of how Hydro's energy efficiency partnerships can have an immediate, measurable and beneficial effect on such industries, which have long been an essential part of the economic fabric of the province.

Molson Identifies Major Savings

Through an audit of the company's energy use patterns by Hydro's Energy Services Business Unit, Molson's Etobicoke brewery identified, in just five months, utility cost savings of \$800,000 per year. By the time the study is completed, potential annual savings using available technologies are expected to be as high as \$1.5 million.

Goodyear Gains from Account Plan

Electricity supply problems and high electricity rates caused the Goodyear Tire plant in Napanee to consider self-generation. Hydro responded with a proposal for an account plan that integrated the business objectives of Goodyear and Hydro. By utilizing real-time pricing rates and a plant energy management program, Hydro helped this customer achieve the per-unit electricity costs it needs to stay globally competitive and to be able to expand.

Fortino's Efficiency Has Environmental Benefits

With Ontario Hydro's assistance, this Ontario-based chain of retail food stores reduced energy costs by nearly 40 per cent in six locations. The company retrofitted refrigeration equipment by replacing compressors, upgrading frozen-food cases and using polyester covers to reduce cold air spillage. CFCs in the equipment were replaced with the more environmentally friendly HCFCs. In addition, more efficient lighting and automated control systems were installed.

OHT/Westinghouse Joint Venture on Fuel Cells

The world's first facility for the testing of pressurized solid oxide fuel cells opened in April. In partnership with Westinghouse, already a world leader in the development of this increasingly useful technology, Ontario Hydro Technologies built the facility with assistance from several large public and private energy organiza-

tions. Its main purpose is to find out how much more energy can be squeezed out of a solid oxide fuel cell under high pressure.

Such research is timely, because fuel cells are likely to be a major source of electricity in the early 21st century, and the more energy-efficient models will clearly have a major market advantage. Because they are modular, fuel cells can be installed virtually anywhere – in commercial buildings, factories and remote communities, for example – reducing or even eliminating the need for long and costly transmission lines.

ENERGY EFFICIENCY

Accelerating Energy Efficiency in Ontario

The Energy Efficiency Consortium set itself an ambitious agenda: “To rapidly accelerate the implementation of energy efficiency in Ontario buildings, equipment and industrial processes.”

Thirty specific action plans toward these ends were set out in the Consortium’s report, called *Accelerating Energy Efficiency in Ontario*. Each of these plans defined how, by whom and by when it was to be implemented. The schedule is, as the report title indicates, accelerated. Work on most plans began as soon as the report was published, and the others were already under way. Their completion is expected throughout 1995 and 1996. Here are a representative selection of the action plans.

Build the Energy Efficiency Alliance

To continue the work of the Consortium, an alliance is being formed of organizations that can contribute to – and benefit from – greater energy efficiency. To ensure the alliance’s objectivity, Hydro will not support it financially.

Full Life-Cycle Cost Accounting

The report recommends that the International Standards Organization (ISO) TC207 life-cycle analysis protocols be used as a base for the development of new product standards and building codes that will help consumers and businesses make more informed decisions on the true economic value of energy-efficient products.

Add IRP to Ontario Hydro’s Mandate

The Power Corporation Act should be amended to mandate Hydro to “provide energy services at the least cost within an integrated resource planning framework.” This legislative change would be the most effective way of ensuring that energy efficiency is pursued on a consistent, long-term economic basis.

Building Labelling Program

The Consortium seeks to quickly develop and foster a voluntary, market-based system of building performance labelling, making energy-efficient buildings more attractive to investors.

INTERNAL ENERGY EFFICIENCY

As its own largest customer, Ontario Hydro consumes 1.5 times as much electricity as the City of Toronto. Until reduction initiatives were taken in 1994, at least 10 per cent of the electricity used in the province went toward internal use or losses in production, transmission and distribution. This means that Hydro itself could be the best proving ground for a wide range of energy savings measures. In 1994 a Corporation-wide effort, coordinated by a new Internal Energy Efficiency Group, was launched to reduce annual internal energy

Consumer-Friendly Information on Energy Use

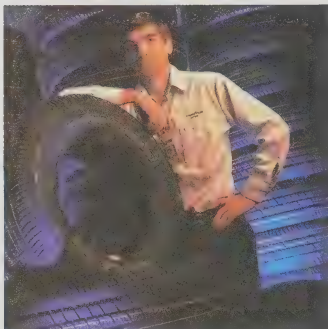
A simplified and readily accessible measure of energy use will promote energy efficiency, because people act on information they can understand. For this reason, the alliance is establishing a collaborative to examine more helpful billing, metering and customer information.

Utility Compensation for Energy Efficiency

Both public and private utilities should be market-driven to conserve energy at least as much as they are now motivated to sell it. Moral imperatives are not enough to spread energy efficiency as rapidly as we must.

The other 24 action plans focus on legislative, regulatory and standards issues, public and business education on energy efficiency, and financing. A series of reports will be issued, at least annually, to review progress in implementation.

Customer Profile



Reg Gore, Facilities Manager, Goodyear Tire

Concerns over electricity rates and reliability of supply were leading management at the Goodyear Tire plant in Napanee to consider installing their own generation. Ontario Hydro's response was a proposal for an "account plan" that met the customer's needs without large capital expenditures. Reg Gore, Goodyear's Napanee facilities manager, is happy with the results so far: "Together, Goodyear and Hydro have established a strong base from which we can collectively expand. Our company has strong growth potential – providing we can remain competitive in the marketplace. This plan helps us do that." By utilizing real-time pricing rates in combination with energy efficiency measures in the plant that were recommended by staff from Hydro's Energy Services Business Unit, Goodyear has achieved the per-unit electricity costs it needs to continue to compete globally.

use by 5 per cent, or 700 gigawatt-hours (GWh), by 1997 without compromising safety or reliability. The 1994 reduction target was 175 GWh and the actual savings were 292 GWh, enough energy to serve a city the size of Owen Sound. Annual corporate savings are valued at \$16 million. The reduction was accomplished through process and procedure changes at generating plants and a reduction in transmission and distribution losses brought about by the installation of new facilities, refurbishments and upgrades, and other measures.

Among the more notable internal energy efficiency achievements were two efforts in the Customer Services Group. The infrastructure of the Grid System Business Unit, because of its size and age, offers the greatest opportunities within Hydro to improve energy efficiency. The unit is busy identifying all of its savings potential and implementing efficiencies as quickly as possible. In 1994, the unit's energy consumption dropped by 126 GWh – nearly half the corporate total and almost twice its target of 70 GWh – valued at nearly \$7 million per year. The use of compact conductors in transmission lines was a major factor. At the Retail System Business Unit, the operation of the electricity distribution system is being enhanced by converting transformers to operate at higher voltage levels, installing capacitors and larger conductors and improving phase and feeder balancing. The unit saved over 34 GWh in 1994, enough to serve a community of 5,000.

The Generation Group has also contributed to the drive for internal efficiency. The Fossil Business Unit set a target of 15 GWh for the year but achieved three times as much, 45 GWh. Fossil expects to improve on these

savings by an additional 20 GWh in 1995 by increasing fuel conversion efficiency and installing new equipment. Hydroelectric's six plant groups were able to reduce energy at their facilities by 5.2 GWh, more than five times the target. The main measures employed were more efficient lighting and heating and low-energy "bubbler" systems to keep the stations' headgates free of ice during the winter. The Nuclear Business Unit optimized pump usage and installed efficient lighting and heating to save almost 76 GWh.

TAKING ENERGY EFFICIENCY OVERSEAS

Improving internal energy efficiency makes sense for all utilities, a message that Ontario Hydro International has successfully sold to Thailand, Brazil and Korea. Together with Hydro's Energy Services and Grid System Business Unit staff, governments and utilities in these countries have benefited from an integrated resource planning approach to developing options for energy supply and demand management. In China, OHI's work with partners Monenco Agra, Teshmont and Manitoba Hydro is paving the way for an optimized, all-energy sector and transportation plan for four southern provinces.

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Ontario Hydro's program of internal energy efficiency has only begun. Far greater savings – permanent savings – will be achieved in future. Regular investments in this area, no matter what the energy source, will remain demonstrably sound business decisions for many years to come, for both Hydro and its customers.



SUSTAINABLE DEVELOPMENT

As one of the world's largest public utilities, Ontario Hydro strives to be a global leader in sustainable development.

Decisions on electricity production and use are now shaped by how we can best provide for the present without limiting our options for the future.

SUSTAINABLE DEVELOPMENT

A global consciousness that all nations and cultures share a common environmental future has changed the world's view of economic progress. There is now widespread agreement that present generations must endeavor to meet their own needs without compromising the ability of

future generations to meet theirs. Although this goal is necessarily long-term in nature, the number of confident steps taken toward it in 1994 by Ontario Hydro demonstrate both a philosophical and an operational commitment to the principles of sustainable development in *Agenda 21*, adopted by the 1992 United Nations Conference on Environment and Development.

Thinking about the future – and how electricity development in the present will affect it – is not at all new to Ontario Hydro. Many long-standing policies and practices have shaped Hydro's approach to meeting the province's electricity needs in ways that minimize environmental and social impacts. What is new, one year after the report *A Strategy for Sustainable Energy Development and Use for Ontario Hydro* was received by the

Board of Directors, is a reoriented, Corporation-wide focus on SED principles that is designed to coherently integrate sustainability into all major business decisions and activities.

We view sustainability as part of a competitive business strategy that contributes to the corporate bottom line. Decreased remediation and pollution control costs, reduced maintenance and energy resource expenditures, and rapidly growing international markets for energy efficiency and environmental technologies are just three examples of how sustainable energy development can make good business sense. Ontario Hydro intends to provide leadership by demonstrating how sustainability and economic progress can walk together into the future.

Performance and Achievements



Industrial Ecology Solves Two Problems
Instead of being stored on site, most of Nanticoke's dry coal ash is being shipped by rail to a cement manufacturing plant in Michigan, where it will be used in place of quarried shale, saving money and reducing greenhouse gas emissions.



Communities Participate in Major Project
SED principles will govern the redevelopment of the Ear Falls Generating Station on the English River. Northern and First Nations communities in the area are being consulted and fully involved in the program.

1994

FIVE SED Pillars

The ten points of the SED strategy accepted by the Corporation in 1993 have been fashioned into five pillars of sustainable energy development that support Hydro's commitment to this goal:

- promoting energy and resource use efficiency;
- continuously improving environmental performance;
- increasing use of renewable energy;
- financial integrity: generating revenue while considering full environmental costs; and
- social integrity: stakeholder consultation and the efficient use of human resources.

CORPORATE SED INITIATIVES

Several major corporate-level initiatives during the year addressed one or more of these five pillars.

Ozone-Depleting Substance Management

In recent years, Ontario Hydro's annual emissions of ozone-depleting substances (ODSs) were the equivalent of 25,000 to 40,000 kg. Dry-cleaning processes at nuclear facilities accounted for about 80 per cent of these emissions. In addition, a large inventory of ozone-depleting substances remains in firefighting equipment and large air-conditioning systems.

Under the provisions of the Montreal Protocol, Canada is committed to eliminating consumption of controlled ODSs by December 31, 1995. In July, the Board approved a management strategy that will enable Ontario Hydro to move beyond compliance with this goal and achieve an ODS emission rate as low as technologically possible by the end of 1995. Ultimately, all ODSs will be replaced by substances whose potential environmental impact is greatly reduced.

Greenhouse Gas Management

A strategy to manage greenhouse gas (GHG) emissions that matches or exceeds Canada's international commitments under the Framework Convention on Climate Change was developed, then approved by the Board in January 1995. Its two objectives are:

- to reduce the carbon intensity (the GHG emission rate) of the electricity that Ontario Hydro supplies to its customers by 5 per cent by the year 2000, compared with the baseline 1990 rate; and
- to contribute to the global effort to reduce GHG emissions by stabilizing emissions at 1990 levels by the year 2000 and reducing them by a further 10 per cent by the year 2005.

These targets will be met through a mix of supply-side and end-use efficiency options as well as renewable energy initiatives. In addition, Hydro will be looking at projects that help offset a portion of its emissions.

Renewable Energy Technologies

Wind, falling water and sunlight, along with natural energy sources such as biomass, provide renewable energy that can sustainably fuel electricity production without causing significant harm to the environment. Moreover, future competitiveness in the electricity sector will probably require increased use of small-scale, distributed generation options. For these two reasons – competitiveness and sustainability – Ontario Hydro has developed and begun to implement a Renewable Energy Technologies (RETs) Strategy.

Over the next five years Hydro has committed itself to spend \$110 million on RETs. Hydro will focus on aggressively enlarging its experience in implementing, contracting for and maintaining RETs and will work to



Sun Provides Electricity Anywhere
Ontario Hydro Technologies' photovoltaic systems can supply basic residential power needs at remote locations anywhere in the world, with little or no environmental impact.



The Business of Reuse and Recycling
Hydro's Investment Recovery Services manages the sale, redeployment and disposal of old equipment, surplus materials and unusable wastes. The unit brings in an average of \$12 million annually from sales alone.



Cleaning Up Without Ozone Damage
Ozone-depleting substances have been eliminated entirely from the careful and complex process of cleaning protective clothing used at nuclear stations. This one change reduced Hydro's total ODS emissions by 80 per cent.

Employee Profile



David Malone, *Handyperson*, and Rose-Mary Matusiak, *Administrative Assistant*
David Malone, a handyperson at Head Office, wasn't happy with what he was seeing in the recycling bins he was handling. "Because of corporate downsizing and so many offices being vacated, a lot of perfectly good supplies were being thrown out. Every day I was finding things like folders, clipboards, desk accessories, and even computer software in the bins. I felt I had to do something about it." Malone mentioned his concerns to Rose-Mary Matusiak, administrative assistant to Executive Vice President John Fox, during a morning subway ride to work. That conversation led to the opening of Second Hand Rose's, a "store" where once-unwanted but still usable supplies are now sent for recirculation to other Hydro departments that can use them.

assist their development and marketplace acceptance. To gain operating experience, up to 125 megawatts of capacity will be added to the grid by contracting with suppliers for a variety of RET-based energy projects. Ontario Hydro will also work with municipal utilities to find ways to make RETs more readily available to their customers. All of this will help stimulate an Ontario RETs industry, which must prepare for ever-widening global markets.

RETs provide a diversification strategy for Hydro that is aimed at taking advantage of markets for new technologies, creating new services and generating new revenue sources, all from green energy.

Criteria for Decision-making

Decision criteria were developed in 1994 to assist Hydro's business units in defining the SED implications of investment decisions that require the approval of senior management or the Board of Directors. These criteria address the implications of a proposed expenditure with respect to the five pillars of sustainable energy development. Discussion of the environmental impacts of the proposed expenditure should consider:

- full life cycle, from design to decommissioning and disposal;
- expected damage to ecosystems, communities and human health;
- potential environmental impacts of alternatives;
- quantification and monetization, if possible; and
- the trade-offs that were made in selecting the preferred alternative.

This analysis is expected to uncover relationships between competitiveness and sustainability that might otherwise go unnoticed and, as a result, lead to better investment decisions.

Full Cost Accounting (FCA)

A draft FCA strategy was developed, which defines FCA for the Corporation and sets out the Corporation's approach to implementation in a practical way.

Environmental Management

Several activities were undertaken to enhance environmental management. A corporate environmental management system (EMS) framework was developed. Several business units have begun the development of EMS models as well as detailed guidelines. An environmental auditing program for both corporate and business units' performance has been established. Corporate guidelines were developed for Phase I Environmental Site Assessments, and several business units have begun Phase I activities to inventory contaminated lands.

Employee Participation

Ontario Hydro employee representatives from its union workforce are now members on the Consolidated Management Committee and the Corporation's Board of Directors; they will directly influence corporate decision-making on many issues, including sustainable energy development. Hydro employees are also being invited to contribute to the growing number of SED-related ideas and activities.

One such activity resulted from the challenge to Ontario Hydro from B.C. Hydro to participate in a "Clean Air Commute." Employees of both utilities were

encouraged to bike, walk, carpool or take public transit to work on Clean Air Day, June 22, 1994. With their 75 per cent participation rate, Ontario Hydro employees easily surpassed their B.C. Hydro competitors (44 per cent). Under the terms of the challenge, B.C. Hydro planted 10,000 trees in its local airshed. In turn, Ontario Hydro distributed seedling trees to its participants and received an award from Pollution Probe for its efforts on Clean Air Day.

International Partnerships

To be successful, sustainable development must be adopted and implemented on a global scale. To facilitate a more rapid transfer of SED-related knowledge and expertise to the rest of the world, Hydro supports and has participated in a number of international associations and initiatives, including:

- the World Business Council on Sustainable Development, which was formed to provide a business perspective on environment and development to the 1992 Rio Conference and to be an industry voice in its follow-up;
- an environmental impact assessment seminar, presented by the Canadian Urban Institute with Ontario Hydro International, to government, business and utility representatives in Hungary;
- the E7, an organization of the world's largest electrical utilities, whose mission is to play an active role in global electric issues and to promote sustainable development;
- training seminars on environmental impact assessment in Mexico, India and Jordan; and
- the Global Energy Efficiency Collaborative, which was initiated by Ontario Hydro and the Earth Council to help accelerate global energy efficiency efforts.

In partnership with such organizations, Hydro is able to share its SED vision and benefit from the experience of others.

Business Unit SED Initiatives

Although corporate leadership is required to efficiently orchestrate Hydro's comprehensive strategy on sustainable energy development, it is the business units that must deliver on that strategy by developing or adopting the initiatives that will contribute to its success. In 1994, many units made significant contributions to SED at Ontario Hydro.

Industrial Ecology

Industrial ecology occurs when one industry's by-

product becomes another's feedstock, improving resource use efficiency and reducing environmental impacts. A recent example of this concept in action occurred at the coal-fired Nanticoke Generating Station, which has contracted to provide 250,000 tonnes of coal ash per year to be used in cement manufacturing by the Lafarge Corporation in Michigan.

This contract means that the majority of Nanticoke's solid waste will no longer need to be stored on site, bringing environmental benefits and saving the cost of expanding storage capacity. At Lafarge, the coal ash will be used in place of quarried shale, reducing both costs and greenhouse gas emissions from the cement production process.

Under a similar contract, gypsum produced by the flue gas desulphurization scrubbers at the Lambton coal-fired plant is sold to Westroc Industries of Mississauga. There it is used in the manufacture of wallboard. The scrubbers, placed in service on Units 3 and 4 in July and October, will help the Fossil Business Unit stay well below sulphur dioxide emission limits.

ODS Reduction

The Nuclear Business Unit has eliminated 80 per cent of Ontario Hydro's corporate emissions of ozone-depleting substances by converting dry-cleaning facilities at the Bruce and Darlington Nuclear Divisions to wet washing, where possible, and using a less toxic solvent when limited dry cleaning is still necessary. The conversion has eliminated CFC-113 from the process of cleaning radiological protective equipment and decontaminating equipment.

Comprehensive Application of SED Principles

A project involving a comprehensive approach to sustainable energy development was begun this year by the Hydroelectric Business Unit at the Ear Falls Generating Station in northern Ontario. Every aspect of the station's redevelopment will be managed by applying SED principles, from building site roads and local purchasing to the reuse of construction materials and the protection of fish habitats.

The project began in September by consulting with northern and First Nations communities in the region on options for the site. In November, general agreement was reached on standards to measure SED performance and the formulation of action plans. One of the primary goals of the project is to increase the efficiency

of energy and renewable-resource use by using water that is currently being spilled. Another objective is to reduce the social impact of this redevelopment by involving the local communities in project planning and construction.

Distribution Transformer Study

The Retail System Business Unit, which sells energy directly to almost a million customers, purchases 10,000 to 13,000 new pole-top and pad-mounted transformers each year. A joint study last year with Business Services determined that a sustainable approach that considered the total life-cycle costs of these transformers would save over \$2 million a year.

Investment Recovery Services and Waste Management Services

Disposal of aging equipment, surplus materials and unwanted wastes has been turned into a new corporate opportunity by Hydro's Business Services. Investment Recovery Services (IRS), at its Kipling site in Etobicoke, deals with such unwanted items by providing corporate redeployment, sales and waste management services. In this way, business units realize investment returns on surplus equipment and reduce potential environmental liabilities associated with waste management. In 1994, returns to Ontario Hydro through IRS were about \$23 million. A further \$3 million comes out of redeployment and recycling initiatives. Moreover, money is being saved through consolidation of wastes at the Kipling transfer site. Surplus material and equipment that cannot be used internally is also being redeployed by municipal electric utilities through joint purchasing agreements.

Small-Scale Photovoltaic System

Ontario Hydro Technologies has begun commercialization of the EN-R-PAK I, a portable 50-watt solar collector and 12-volt electrical storage unit that is designed for off-grid locations in remote areas, like much of Ontario's cottage country or rural communities in the developing world. The upgradable unit can begin to power high-efficiency lights, a communications appliance and a small water pump within a minute of being set up, at little or no environmental cost.

Local Integrated Resource Planning

Local Integrated Resource Planning (LIRP) is designed to ensure that all available options are considered in determining how best to meet customer needs. Additional generation and transmission capacity should be built

only if it is the most cost-effective and sustainable solution to meeting electricity demand.

A good example of the economic and environmental sense of this new planning process was the first LIRP study conducted by Ontario Hydro and led by the Grid System Business Unit in the South Georgian Bay (Collingwood) area. The existing distribution system had reached its maximum capacity to deliver energy reliably during peak winter periods. A decision had to be made on a new transformer station and transmission lines, which would cost \$65 million. The Collingwood LIRP study showed that a realistically achievable program to reduce demand by 9 megawatts through energy management initiatives would defer the need for construction of any major new capacity to beyond the year 2000.

A major 1994 consultancy project by Ontario Hydro International in the People's Republic of China, in partnership with Hydro's Grid System and Fossil Business Units, provided a high-profile example of the transfer of SED knowledge and experience from Ontario to a country facing massive growth in energy demand. The Hydro team conducted an electrical power development study for the Tianjin Economic and Technological Development Area in northeast China, 200 km from Beijing – a critical first step in the development of this newly emerging special economic zone. Twenty million people live in the area, and its current electrical demand of 50 megawatts is projected to grow to over 800 megawatts by 2010. Using an integrated resource planning approach, the team recommended a development strategy that provides a mix of demand and supply-side options, including energy efficiency and demand management programs.

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Ontario Hydro's progress toward sustainable development will be, by its nature, incremental. Some initiatives, such as the internal energy efficiency program and the elimination of ozone-depleting substances in the Nuclear Business Unit, cover a lot of ground in one step. Others, such as the development and commercialization of renewable energy technologies, will take time to mature, but their benefits will be cumulative and permanent. Efforts throughout the Corporation in 1994 demonstrate that Ontario Hydro is taking deliberate, significant steps toward a more sustainable future.



SAFETY AND RELIABILITY

Safety and reliability are the most important qualities of any energy source. In these two areas, Ontario Hydro has been a world leader for decades. We continue to make significant investments in training, maintenance, research and system upgrades to ensure that electricity in our province remains safe to produce, safe to use and always at hand.

SAFETY AND RELIABILITY

Our paramount concern as a public utility is safety in all its aspects. For our customers, this means our continued vigilance so that they can use our products and services with confidence. For the environment, local and global, it means reducing any potentially negative impacts of energy

production and use. And to protect our most valuable resource – our employees – safety means minimizing and, where possible, eliminating work-related hazards.

Reliability, the bedrock of Ontario Hydro's reputation for customer service, is a function of two capabilities: supply and transmission. Hydro's investments in both, whether adding to existing capacity or maintaining what is already in place, must be geared to the long term. This is why, despite fiscal pressures that are expected to last for some time, Ontario Hydro continued to invest heavily in safety and reliability throughout 1994.

EMPLOYEE SAFETY

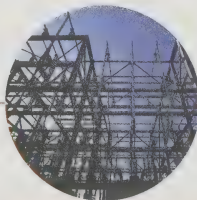
An otherwise improving record in occupational health and safety was eclipsed in 1994 by an electrical contact

accident that claimed the life of an Ontario Hydro employee. As a result the corporate safety target for 1994 was not met and the corporate award portion of the performance achievement plan was unavailable to executives and corporate officers. More important, this tragedy made the Corporation's efforts to improve the management of employee safety all the more urgent, particularly in the area of critical work procedures.

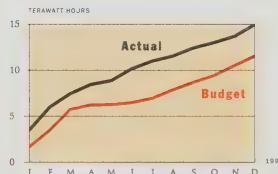
Senior management and their counterparts in the Power Workers Union and the Society of Ontario Hydro Professional and Administrative Employees forged closer partnerships on health and safety during the year. Together they created a document called *Vision of Employee Health and Safety in Ontario Hydro*, developed corporate minimum audit standards, over-

Performance and Achievements

1994



Grid System Reliability a Priority
A sophisticated method of predicting when salt contamination may cause flashovers allows Grid System Business Unit district staff to anticipate potential failures, clean insulators and avoid interruptions to customers.



Energy Available When Needed
Responding to large swings in forecast electricity demand during 1994, the Fossil Business Unit showed its flexibility by producing 15 TWh, 30 per cent more than had been planned, while exceeding its reliability target.

saw Joint Health and Safety Committee certification training and completed and implemented the revised corporate safety rules and policies.

EMF STUDY

A major area of concern for employee health and safety – and one that touches the public as well – is the possible relationship between occupational exposure to 50- and 60-Hz electric and magnetic fields (EMF) and certain cancers. In 1994 the results of the largest-ever controlled study in this area – a joint effort of Ontario Hydro, Hydro-Québec and Électricité de France – were published in the *American Journal of Epidemiology*.

The study had several findings. No statistically significant association was observed between EMF exposure and most cancer types, with the exception of two types of rare adult leukemia. Although evidence of a direct causal link between EMF exposure and these leukemias did not come out of the study, the results are compatible with the findings of previous research and cannot be ignored. As a result, Hydro is undertaking new study programs related to employee EMF exposure, in partnership with affected employee groups. Hydro will continue to provide information on this subject to the public as well as to its own employees.

GENERATION GROUP

The generation business units implemented a number of safety-related innovations in 1994 and exceeded expectations for reliability.

Safety System Performs As Designed

On December 10, 1994, approximately 140 megagrams of heavy water was released on the floor of the Picker-

ing Unit 2 reactor building. This incident provided a real-life, real-time test of the nuclear safety system, which performed as designed. No Hydro employee or member of the public was exposed to radiation above normal levels, and extensive monitoring found no increase in radiation levels in the vicinity. The reactor shut down automatically, and the Emergency Coolant Injection System responded immediately. The appropriate levels of government were notified at once. As a safety precaution, the other Pickering A units were taken out of service until the cause of the spill was discovered. An exhaustive investigation determined that the root cause was the opening of a high-pressure relief valve followed by cracking of the pipe to which it was connected. The piping has been redesigned, and the new design is awaiting regulatory approval.

Even taking into account this incident, Hydro's nuclear unit reliability is statistically ranked with the best. Two Hydro units placed among the top ten in the world in lifetime performance. Pickering Units 7 and 8 ranked seventh and fifth, respectively. Pickering 7, in fact, set a new world record for continuous on-line operation: 894 days, nearly two and a half years. The previous record had been slightly less than two years.

Fewer Outages, Shorter Shutdowns

The Hydroelectric Business Unit improved its reliability in 1994 by successfully experimenting with innovative methods of safely completing station improvements without shutting the stations down. As a result, both the number and the length of outages at generating stations were reduced. This year as well, the unit launched its occupational health and safety network, comprising



Promoting Electrical Safety

Under a provincial mandate, inspection staff from Hydro's Retail System Business Unit work to ensure awareness of and compliance with the Ontario Electrical Safety Code. Over 100 seminars were conducted last year to familiarize approximately 6,000 contractors with the new code.



On-Site Risks Reduced

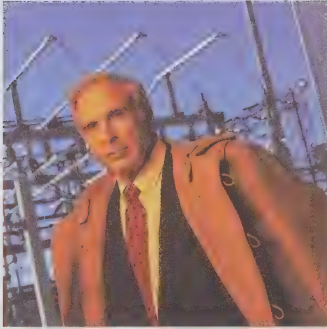
Fault current diversion is a new technique developed by Ontario Hydro Technologies to protect electrical workers in vaults that contain live cables and splices – work sites that pose higher safety risks.



No Margin for Error Allowed

In Ontario Hydro's world-renowned Fall Protection Lab, OHT tests safety equipment and trains personnel from electric and telecommunications utilities in North America and Europe on working safely at significant heights.

Customer Profile



Carl Kropp, General Manager, Ottawa Hydro

"Ontario Hydro shared our concerns about potential safety and environmental problems at the aging Carling transformer station," according to Carl Kropp, general manager of Ottawa Hydro. "Much of the station's equipment was between 35 and 50 years old, and its continuing reliability could not be guaranteed for long. We both agreed that something had to be done soon." The result of that agreement was joint funding, by Ontario Hydro and Ottawa Hydro, of a \$28-million rebuilding of the station, which serves residential and commercial customers on Ottawa's west side. The station is now expected to supply its service area with safe, reliable power for at least another 30 years.

68 members of 16 joint committees throughout the province. Many of these employees received specialized health and safety certification training.

Fossil Flexibility and Reliability

The Fossil Business Unit (FBU) produced 15 TWh of energy, 30 per cent more than planned, and contributed about 60 per cent of the Corporation's secondary sales. Capacity Available When Needed (CAWN) performance reached 92.9 per cent, well above the 1994 target of 88 per cent. This was the highest reliability level reached by the business unit in the five years of CAWN measurement.

The FBU significantly improved its employee safety performance, reducing its accident severity rate by 53 percent from 1993.

CUSTOMER SERVICES

For Hydro's customers, safety and reliability mean power they can depend on without risk or interruption.

Major Grid Refurbishment

Ontario's transmission grid, one of the world's largest, is also, in some parts, one of the world's oldest. About 2,000 km of lines were built over 70 years ago. Although all these lines have been well maintained, refurbishment now will extend their useful life by at least another 50 years. The Transmission Line Investment Strategy, approved in 1994, calls for nearly \$25 million to be put into upgrading lines first erected in the 1910s and 1920s. This not only will ensure that these lines remain reliable and do not become safety hazards; it also provides for future load growth.

New Electrical Safety Code

Electrical inspectors in the Retail System Business Unit

operate under a provincial mandate to ensure compliance with the Ontario Electrical Safety Code. A new code was completed and issued in 1994, and inspection staff conducted over 100 seminars for over 6,000 electrical contractors to explain and promote the improved code.

ENTERPRISES GROUP

Ontario Hydro is known the world over for its leadership and expertise in employee safety in the field of electrical distribution. Ontario Hydro Technologies and Ontario Hydro International are preserving and advancing that reputation. Twice during 1994, OHT conducted seminars in fall protection for electric and telecommunications utilities, drawing over 100 participants from North America and Europe. The company's consultants are often called on to test fall protection equipment for manufacturers and distributors to ensure that it meets Canadian (CSA) and American (ANSI) standards. OHI demonstrated this commitment to safety in conducting training for maintenance staff at Luz del Sur, a distribution company in Lima, Peru, owned by OHI and its Chilean partner Chilquinta.

Many other projects undertaken by OHT and OHI are directly related to safety and reliability. For example, OHT successfully developed fault current diversion (FCD), a new technique for protecting workers in vaults that contain live cables and splices. OHI successfully introduced 110-kV bare-hand working procedures to Ireland's Electricity Supply Board and continued to supply transmission training services to the Egyptian Electricity Authority under a CIDA-funded contract.



COMPETITIVENESS

Competitiveness in every industry, including energy, always has the same determinants: cost control, innovation, flexibility and a clear understanding of the marketplace. Ontario Hydro's true competitiveness, however, will ultimately be judged by a single measure: how we contribute to the success and prosperity of our customers.

COMPETITIVENESS

Hydro helps customers become more competitive in two ways. First, and of general benefit to the entire provincial economy, is the drive to improve Hydro's own competitiveness, through massive cost-cutting, business realignment, new provincial and international partnerships

and strategic investments in key assets and initiatives. Second, and of more specific benefit to those who take advantage of it, is the transfer to our customers worldwide of Hydro's expertise in efficient and innovative energy use. By reducing the relative cost of electricity as it comes through the meter and by helping our customers get more from that energy beyond the meter, Hydro helps lower the provincial economy's production costs. This gives Ontario industry more competitive breathing room. Energy cost savings flow to the bottom line and can be used to attract more investment, pay for more training and fund more innovation.

ELECTRICITY EXCHANGE

At the heart of Hydro's competitive strategy is the Electricity Exchange, which was established in Septem-

ber as a business unit within the Customer Services Group. The Exchange is roughly analogous to a commodities brokerage. It has the mandate to administer the Transfer Pricing Framework, a newly designed way of allocating revenues to enable suppliers to recognize the value of their product and to shape competitive behavior more efficiently, helping Hydro prepare for a more open energy marketplace.

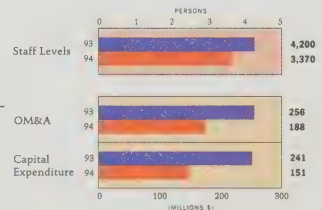
The framework contains many elements common to several similar utility systems found elsewhere in the world. It gives rise to electricity supply contracts between the Exchange, the Grid System Business Unit and the Nuclear, Fossil and Hydroelectric Business Units – contracts that are needed to fulfil the system's requirements for capacity, energy and transmission. These contracts currently have terms of a year, several months or

Performance and Achievements



Neutralizing Biohazards at Source

How to safely dispose of biohazardous hospital wastes is a growing international concern. In collaboration with the Toronto Hospital, Ontario Hydro Technologies is testing new microwave sterilization technology that promises to solve a large part of the problem.



Retail Passing On the Savings

A second annual rate freeze for all customer groups on the Retail System was accompanied by a 27 per cent reduction in OM&A costs, 20 per cent fewer staff and a drop in capital expenses of 37 per cent.

even less, as the Exchange continuously fine-tunes the supply of electricity to meet the actual demand. The Exchange also manages contracts and transactions with non-utility generators in Ontario and with neighboring utilities in Canada and the United States.

At any given time, market demand for electricity might outstrip contracted supply. One reason would be the inability of a unit to deliver on its supply contract, for some unanticipated reason such as a generator breakdown. In that case, the unit pays a penalty to the Exchange, which must find the energy elsewhere. A more common reason for shortfalls is greater-than-anticipated energy needs, for example because of weather extremes. Still another would be the sudden opportunity to sell additional electricity in secondary markets, again often because of weather extremes or equipment failure. The Exchange has established a spot market, which permits an opportunity for generation not committed under contract to compete and supply such customer needs.

The Grid System Business Unit contracts with the Exchange to deliver the energy to customers, in Ontario and elsewhere, through its transmission facilities. It is the Grid's responsibility to inform the Exchange of the capacity and availability of its facilities and to keep them well maintained and reliable; and it is the Exchange's role to schedule and dispatch the energy and the use of transmission facilities to precisely meet customer needs.

The Exchange provides a settlements service that reconciles these energy contracts. It receives payments from customers inside and outside Ontario and allocates these revenues according to its transactions with suppli-

ers and the Grid. Because of this service, almost all of Hydro's revenues flow through the Exchange.

The current Exchange infrastructure at the Clarkson System Control Centre (CSCC) includes a sophisticated data acquisition and computer system to monitor and help operate the bulk electricity system. This makes the CSCC the system's hub for technical and operational information. The Exchange is expected, according to its business plan, to build on this information expertise to become a primary market source of forecasts and evaluations of capacity and energy requirements – information that will be critical for contracts, business plans and budgets relating to energy.

This major operational innovation at Ontario Hydro has only begun to evolve. The Exchange is already considering ways of expanding its operations so that it can compete more fully in the North American energy markets as they continue to open up. It is also in search of more ways to differentiate products and services and is preparing for eventual competition with other energy marketers, inside and outside the province.

GENERATION GROUP

The largest factor in Ontario Hydro's overall competitiveness – and the one that concerns customers most – is the price of electricity. In 1994, several initiatives in the Generation Group were aimed at driving power production costs down, well into the future.

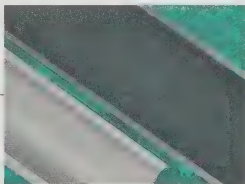
Nuclear Boiler Maintenance

The Nuclear Business Unit, which supplies the majority of electricity consumed in Ontario, launched major boiler cleaning programs at the Pickering and Bruce stations, and renewed emphasis was put on boiler chem-



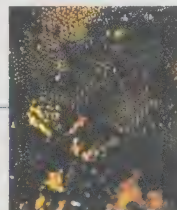
Global Sales on the Rise

Exporting Hydro's expertise to the developing world is a growing business for Ontario Hydro International. One of many successful projects involved assistance to a utility in Thailand for the upgrade of computerized accounting and finance systems.



New Technique Saves Pipes and Money

Electrosleeving, an OHT-developed method of "growing" a new nuclear generator pipe inside an old one, is an innovative alternative to conventional repairs for pitting corrosion. Electro-sleeving will be marketed internationally.



Microwaves Improve Gold Refining Efficiency

Advanced microwave technology that efficiently reactivates the carbon used in gold refining has been developed by an OHT/private-sector partnership. The new process is now being tested at a mine near Kirkland Lake.

Customer Profile



Kent Edwards, General Manager, Windsor Utilities Commission / Ken Rossi, Plant and Energy Engineering Manager, Ford Motor Company of Canada
 With supply problems in the Windsor-Chatham area on the horizon because of increasing industrial and commercial demand, Ontario Hydro's Grid System Business Unit conducted a Local Integrated Resource Planning (LIRP) study in 1994, in partnership with area municipal electric utilities and major customers. Kent Edwards of the Windsor Utilities Commission (left) and Ford's Ken Rossi (right) served on the steering committee that produced the plan, along with representatives from Chrysler and General Motors. According to Rossi: "At the end of the process we had a long-term solution that addressed all customer concerns, was economically sound, took environmental issues into account and, most important, was achievable within the two years we had before supply problems might start to affect us."

istry control at all plants. These steps are intended to make sure that all of Hydro's reactors (except for Bruce Unit 2, which is being shut down but in a preserved state to ensure future flexibility) will live out their full service lives without the need for costly boiler replacements. Boiler corrosion is an expensive problem facing virtually all nuclear facilities around the world.

Ontario Hydro Enterprises

In 1994, Ontario Hydro International increased its presence and demonstrated its global competitiveness through its formation of a strategic partnership in Asia and its equity investment in Peru.

Asia Power Group was incorporated by Ontario Hydro International, Hydro-Québec and Power Corporation of Canada to forge a Canadian investment alliance to concentrate on electric power opportunities in the Asia Pacific Region. Also, an international consortium, Ontario-Quinta, comprising Ontario Hydro International, Chilquinta (a Chilean electricity distribution utility) and a group of international institutional investors, purchased 60 per cent of the electricity distribution company serving southern Lima, Peru. These investments are expected to provide superior financial returns and spin-off benefits for Ontario Hydro and its customers.

Maintenance and repair of nuclear facilities is a major competitive issue because shutdowns, particularly those that happen before they were anticipated, are very costly. A nagging problem faced by operators of nuclear steam generators worldwide, including Ontario Hydro, is pitting corrosion inside the boilers and pipes, normally caused by sludge buildup. In late 1992,

Hydro's Nuclear Business Unit called in Ontario Hydro Technologies to look at the severity of its own corrosion problem and assess potential off-the-shelf repair technologies that could be used or adapted quickly. The investigation led to the development of electrosleeving, an innovative method of "growing" a new tube inside the old one at no expense to the original's strength or ductility. The process proved successful this year, and patents are pending on the technology.

Local Economic Development at Bruce

A strategy of building more and longer-term partnerships between Hydro and its customers improves competitiveness for both. For example, the Nuclear Business Unit signed an agreement to supply steam for 25 years from the Bruce A station to the Bruce Energy Centre (BEC), a growing industrial and agricultural products area on Lake Huron. The contract, which also commits Hydro to help develop the infrastructure for the BEC, is a major boost for the region. The energy deal is expected to attract up to \$400 million in new investment over the next several years, creating over 400 direct and 1,350 indirect jobs.

Fossil Business Unit Strategy

As the manager of the power source most adaptable to rapid swings in power needs, the Fossil Business Unit was called on to respond to the exceptionally strong demand for electricity from neighboring utilities in 1994. This increase in energy production was accomplished while continuing to reduce both variable and fixed costs, including fuel inventory costs. A significant portion of the reduction resulted from cancelling the

remainder of the Lambton rehabilitation project and taking a total of three generating units out of service at Lambton and Lennox.

In the short term, the FBU will continue to improve its competitiveness by streamlining its organization and business processes, aggressively pursuing export sales and focusing its operations on prime units to reduce maintenance and capital spending. At the same time, with an eye to the longer-term future, it is taking initiatives that will enable it to become an integrated energy service business, providing steam and hot water as well as electricity to meet changing customer energy needs.

New Maintenance Methods

Innovative maintenance processes were responsible for large savings in the Hydroelectric and Grid System Business Units this year. Three noteworthy examples:

- At the R. H. Saunders Generating Station on the St. Lawrence River, potentially damaging pressure caused by alkali-aggregate reaction ("concrete growth") was eliminated by cutting gaps between generating unit structures. Nearly \$1 million in revenue was retained because this process worked while the station remained in operation.
- The Grid System implemented new methods of predicting maintenance requirements on critical facilities, such as installing equipment-monitoring sensors. These methods reduce costs while maintaining, and eventually improving, reliability.
- At Sir Adam Beck Unit 17 on the Niagara River, Ontario Hydro Technologies assisted Hydroelectric

with a new method of grouting a gap between the penstock and the outer concrete. This procedure eliminated vibration and restored the unit to 100 per cent operating capacity.

RETAIL SYSTEM

The Retail System Business Unit, which directly serves almost one million of the province's electricity customers, is working to bring its operations more in line with standard business practices. One key change was a revision to Hydro's past practice of providing line extensions to new customers at no cost. Beginning in 1994, new users and developers will finance line extension construction, a change that will, by itself, reduce capital costs by \$20 million per year. As a result of this and other significant reductions in resource costs, rates for Retail System customers were frozen again in 1995.

ENHANCING CUSTOMER COMPETITIVENESS

Beyond the primary task of containing its own costs, Ontario Hydro gives direct help to customers to improve their competitiveness through energy cost controls. The Energy Services Business Unit, for example, provided support for hundreds of commercial and industrial energy use audits in 1994, along with follow-up technical advice on how to extract the potential savings.

This same expertise was exported to Venezuela, where Ontario Hydro International and Energy Services Business Unit staff completed work with the Caracas utility to develop energy audit and analysis skills. These skills have since become the cornerstone of this utility's energy efficiency program.



At the heart of Ontario Hydro's new Electricity Exchange is the Clarkson System Control Centre, which oversees the never-ending task of precisely matching generation to load across the 135,000-kilometre Grid System.

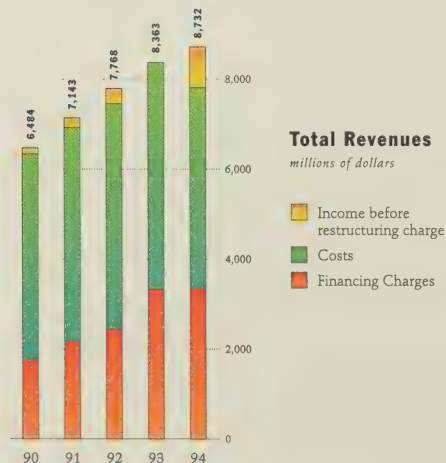
Financial Section

Financial Review and Analysis

for the year ended December 31, 1994

FINANCIAL HIGHLIGHTS

Nineteen ninety-four was a turnaround year due to the significant reductions in Ontario Hydro's costs resulting from the 1993 restructuring and cost reduction program. Ontario Hydro recorded income of \$855 million for the year before the corporate restructuring charge related to staff reductions, compared with income for 1993 of \$10 million before the 1993 restructuring charge. The increase is due mainly to lower costs as a result of the corporate restructuring program and higher secondary sales for the year. The net income for 1994 after the corporate restructuring charge of \$268 million was \$587 million.



Total revenues for the year were \$8,732 million, an increase of \$369 million over 1993. The higher revenues resulted from higher secondary sales over 1993 and a slight increase in the total volume of electricity sales to municipal customers. Operating costs for 1994, excluding financing charges and the corporate restructuring charge, amounted to \$4,475 million, a decrease of \$548 million from 1993. The decrease reflects reduced labour costs resulting from the cost reduction measures and lower fuel costs. Fuel costs were lower primarily due to the reduced cost of nuclear fuel resulting from the 1993 corporate restructuring writeoffs associated with the cancelled long-term uranium supply contracts and increased use of nuclear generation during 1994. Financing charges of \$3,402 million were \$72 million higher than in 1993, mainly due to the impact of new facilities placed in service and higher foreign exchange costs.

Cash provided from operations increased to \$2,227 million in 1994 from \$1,332 million in 1993, reflecting the increased net income for the year. Proceeds of \$2,737 million were received from a global Canadian dollar note issue, a Yen loan, a Euro Canadian dollar note issue, a Euro United States dollar bond issue and the issuance of short-term notes and commercial paper. During 1994, \$3,700 million of outstanding debt was repaid, resulting in a reduction of debt for long-term financing of \$963 million.

Investment in fixed assets during 1994 amounted to \$1,072 million, mainly reflecting rehabilitation work at generating stations and construction of transmission and distribution facilities. The decrease from 1993 investment in fixed assets of \$2,296 million reflects

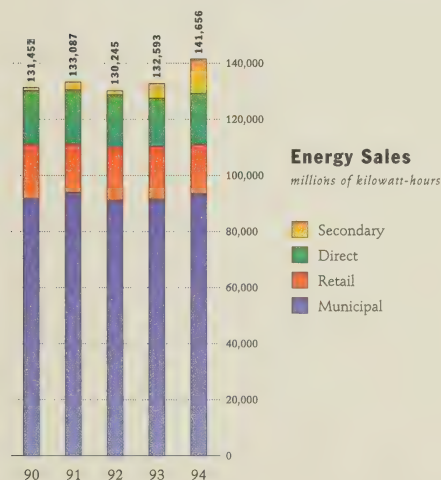
the completion of work on the Darlington Nuclear Generating Station and effects of the capital and capacity review undertaken as part of the 1993 restructuring program.

RESULTS OF OPERATIONS

Revenues

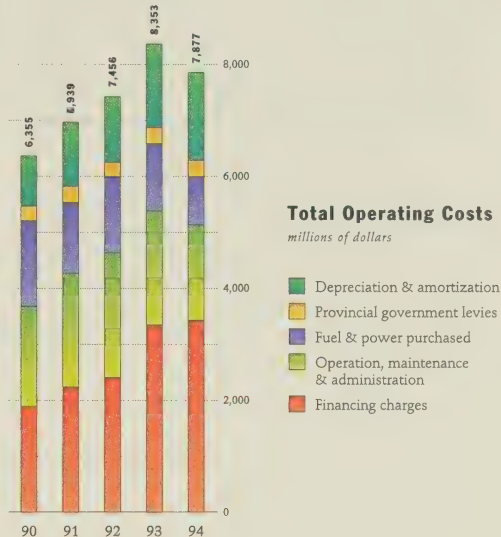
Primary revenues for 1994 amounted to \$8,383 million, an increase of 1.8 per cent or \$148 million over 1993, due mainly to a slight increase in electricity sales in 1994.

Electricity sales to Hydro's three classes of primary customers – municipal utilities, retail customers and direct industrial customers – totalled 129,028 million kilowatt-hours, an increase over sales of 127,787 million kilowatt-hours in 1993. Sales to municipal customers increased primarily due to improved economic conditions, while electricity sales to retail and direct industrial customers were virtually unchanged from 1993. Higher sales to municipal and retail customers resulting from unseasonably cold weather early in the year and high temperatures during early summer were offset by lower sales volumes in the final quarter of the year due to warmer than normal temperatures.



Secondary revenues, mainly from exporting surplus energy to utilities in the United States, increased \$221 million to \$349 million in 1994 as a result of an aggressive marketing strategy for our generating surplus com-

bined with a higher market demand resulting from weather conditions and energy generation problems experienced by utilities in the United States.



Operating Costs

Ontario Hydro's operating costs for 1994, excluding financing charges and the corporate restructuring charge, were \$4,475 million, \$548 million lower than in 1993.

Operation, Maintenance and Administration: Ontario Hydro undertook several initiatives aimed at reducing the level of operation, maintenance and administration costs while maintaining system reliability, environmental initiatives and financial soundness. Operation, maintenance and administration costs for 1994 were \$1,705 million, a decrease of \$355 million or 17.2 per cent from 1993, mainly as a result of the reduced staff levels. In 1993 Hydro reduced regular staff levels by approximately 6,500 through the use of voluntary staff reduction programs. In addition, approximately 4,000 contract and non-regular employees left during 1993.

Fuel Used for Electric Generation: The cost of fuel used for electric generation in 1994, comprising the costs for coal, uranium, oil and water rental payments other than to the Province of Ontario, amounted to \$577 million in 1994, a decrease of \$334 million or 36.7 per cent from 1993. The decrease reflects the reduced cost

of nuclear fuel resulting from the 1993 corporate restructuring writeoffs associated with the cancelled long-term uranium supply contracts, combined with increased nuclear generation resulting from a full year of operation of all four units at the Darlington Nuclear Generating Station.

Power Purchased: In 1994, electricity purchases increased to \$316 million, a \$56 million increase over 1993, as a result of a higher level of non-utility generation purchases. Virtually all of the power purchases were from independent power producers located in Ontario. Hydro also buys electricity when it is economical to do so, during periods of peak demand or in emergencies, and to manage acid gas emission levels. The Corporation's acid gas emissions for the year were estimated at 136,000 tonnes, well within the provincial regulatory limit, reduced for 1994, of 215,000 tonnes.

Provincial Government Levies: Provincial government levies totalled \$284 million in 1994, a slight reduction from \$286 million in 1993. Ontario Hydro is required to pay to the Province of Ontario an annual debt guarantee fee of one half of one per cent on the total debt guaranteed by the Province outstanding on the preceding December 31. The fee for 1994, based on guaranteed debt outstanding as at December 31, 1993, was \$174 million, unchanged from 1993, as guaranteed debt levels at December 31 of each preceding year were unchanged.

Provincial water rental payments, related to Ontario Hydro's use of provincial waters in the operation of its hydroelectric stations, amounted to \$110 million in 1994, a slight decrease of \$2 million from 1993 due to reduced hydroelectric generation.

Ontario Hydro made other payments of approximately \$223 million to various government agencies for payments in lieu of realty taxes, provincial sales taxes, Unemployment Insurance Commission premiums, Canada Pension Plan contributions and Employer Health Tax payments.

Depreciation and Amortization: Depreciation and amortization charged to operations totalled \$1,593 million in 1994, an increase of \$87 million or 5.8 per cent over 1993. The increase was mainly due to the full year of operation of Units 3 and 4 at the Darlington Nuclear Generating Station and other facilities that were placed in service during 1993, as well as facilities placed in service during 1994.

Financing Charges

Financing charges comprise interest charged to operations and foreign exchange costs. Interest charged to operations represents gross interest reduced by capitalized interest and interest earned on investments. By capitalizing interest related to assets under construction until the assets are placed in service, Ontario Hydro equitably allocates costs between current and future customers. Foreign exchange costs represent mainly the amortization of gains or losses on the principal amount of foreign debt.

Interest and foreign exchange charged to operations was \$3,402 million in 1994, \$72 million or 2.2 per cent higher than in 1993. Gross interest costs in 1994 were \$305 million lower than in 1993 due to a decrease in the average level of debt outstanding and a lower weighted average coupon rate. However, this decrease was almost completely offset by the reduced capitalization of interest resulting from fixed asset in-service additions. Foreign exchange costs for 1994 increased \$34 million, primarily due to non-recurring gains in 1993 relating to hedging activities.

Corporate Restructuring Charge and Writeoffs

In 1994, following a review of the 1993 restructuring program and through the business planning process, the Corporation identified the need for additional staff reductions of approximately 2,400 positions. Ontario Hydro will achieve the reductions through the use of a voluntary staff reduction program, with the remaining number expected to be achieved through involuntary staff reduction measures. An amount of \$268 million was charged to income in 1994, reflecting the cost of the staff reductions as well as costs of surplus equipment, lease cancellations and relocation costs related to the staff reductions. In 1993, the corporate restructuring charge and writeoffs of \$3,614 million were charged to income, reflecting costs associated with voluntary staff reductions, amounts resulting from past decisions that the Corporation decided to write off and no longer seek recovery of from customers in future years, and a provision for the shutdown and mothballing costs of certain generating units.

Net Income

Income from operations before the corporate restructuring charge and writeoffs amounted to \$855 million in 1994, an increase from income before restructuring of \$10 million in 1993. Net income for the year, after

the corporate restructuring charge of \$268 million, was \$587 million compared with a net loss, after the corporate restructuring charge and writeoffs, of \$3,604 million in 1993.

Financial Indicators

The Corporation's financial performance is monitored using two main indicators: interest coverage ratio and debt ratio.

The level of interest coverage measures the extent to which net income enables Ontario Hydro to meet its gross interest payments. An increase in the interest coverage ratio indicates a strengthening in the Corporation's financial position. The level of interest coverage based on the net income for the year was 1.17. The level of interest coverage based on income excluding the corporate restructuring charge increased to 1.25 from 1.00 in 1993.

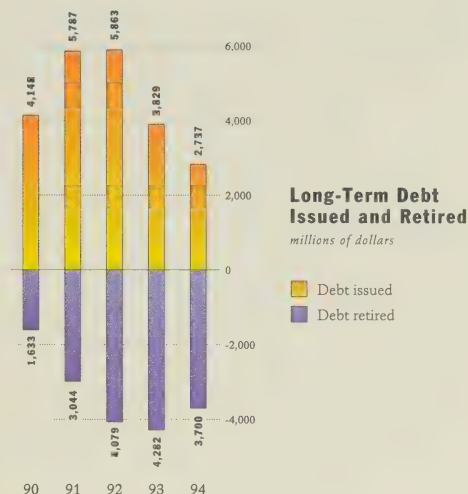
The debt ratio measures the extent to which Hydro's assets are financed by debt. A reduction in the debt ratio indicates a strengthening in financial position, as a relative increase in equity provides additional financial flexibility. The debt ratio at the end of 1994 was 0.904, an improvement from the 1993 ratio of 0.918, due to a lower level of debt outstanding and higher retained earnings resulting from net income for the year.

FINANCING AND INVESTING ACTIVITIES

Financing and Capital Markets

For 1994, Ontario Hydro's cash from operations was sufficient to cover capital expenditures and to reduce the level of outstanding debt. Gross borrowing was required primarily for refinancing maturing issues and also to take advantage of opportunities to minimize interest rates.

Total proceeds from debt issued during the year amounted to \$2,737 million. Proceeds of \$1,887 million were received from a \$1-billion global Canadian dollar floating rate note (FRN) issue, a 5-billion-Yen loan (\$65 million Canadian), a \$350-million 8 1/2 per cent Euro Canadian dollar note issue and a \$350-million 7 3/4 per cent Euro United States dollar bond issue. Proceeds of \$850 million were received from the issuance of Canadian short-term notes and United States dollar-denominated commercial paper. The FRN issue bears interest at a floating rate, reset quarterly, equal to the three-month Canadian dollar bankers' acceptance rate. Ontario Hydro's foreign currency exposure on the Yen loan has been eliminated



through currency swaps. The Canadian dollar FRN has a term of 5 years, the Yen loan has a term of 10 years, and the Euro Canadian and Euro United States dollar issues have terms of 2 and 3 years, respectively.

In 1993, proceeds of \$3,025 million were received from one global Canadian dollar and two United States dollar bond issues, and \$804 million from the issuance of short- and long-term notes. The 1993 bond issues had an average annual interest rate of 7.01 per cent and an average term of 9.6 years. In addition, in 1993, \$857 million was received from the sale of swaptions related to certain Ontario Hydro bond issues.

In 1994, \$3,700 million of cash was used to retire debt, compared with \$5,468 million in 1993. At the end of 1994, \$1,226 million of short-term notes were allowed to mature. These notes were then reissued at the beginning of 1995. This compares with \$1,016 million of debt redeemed or allowed to mature at the end of 1993 and reissued in 1994.

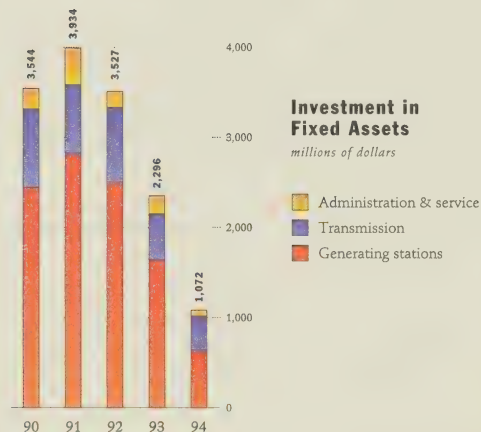
In 1994 there was a net retirement of debt issued for long-term financing of \$963 million compared with \$1,639 million in 1993.

Investment in Fixed Assets

Ontario Hydro invests in fixed assets to maintain service, reliability, safety and environmental performance and to meet regulatory requirements. The total assets

of the Corporation at the end of 1994 were \$44,085 million, 90.3 per cent of which represented fixed assets in service or under construction.

The cash required by Ontario Hydro to finance its investment in fixed assets historically came from two major sources: operations and financing through borrowing. For 1994, cash from operations was sufficient to finance investment in fixed assets. For 1993, operations provided \$1,332 million and financing provided \$404 million for investment in fixed assets. Capital expenditures for investment in fixed assets during 1994 totalled \$1,072 million, reduced from \$2,296 million in 1993. The decrease from 1993 reflects capital reductions implemented as part of the restructuring program and the capital and capacity review as well as the comple-



tion of the Darlington Nuclear Generating Station in 1993. Of this amount, \$692 million was spent on generating facilities and \$344 million was invested in major transmission and distribution facilities, reflecting the continued emphasis on maintaining a high level of service and reliability.

OUTLOOK

Continuing the commitment that began in 1994 to keep rate changes to the year 2000 at or below the rate of inflation, Ontario Hydro has instituted a 0.1 per cent

decrease in rates for 1995 and is currently planning on the basis of no overall rate changes for 1996 and 1997. Ontario Hydro's rate plans reflect its increasing responsiveness to customers' needs for stable and competitive electricity rates.

Hydro's current plans indicate net income levels ranging between approximately \$600 million and \$850 million over the 1995 to 1997 period. These projected levels of net income incorporate assumptions of constant revenues due to flat load during the next three years.

Building on the programs initiated in 1993, Hydro plans to reduce regular staff levels by approximately 2,400 positions. This reduction in staff is achievable because of reductions in work identified by reviews of the administrative and support areas of the Corporation; the removal of some generating facilities from service as a result of a review of capacity undertaken early in 1994; and ongoing organizational restructuring.

Investment in fixed assets is planned to decline over the forecast period from \$1.2 billion in 1995 to \$1.0 billion in 1997. The capital program is primarily focused on maintaining the safety, sustainability and reliability of the current system, as no new supply is expected to be required during this period.

Cash generated from operations is expected to exceed funding requirements for investment in fixed assets for the forecast period 1995 to 1997, and as a result, net borrowings are forecasted to be negative. Debt outstanding, comprising long-term debt and short-term notes, is expected to decrease from a level of \$34.1 billion at the end of 1994 to \$30.8 billion by the end of 1997 as a result of the debt reduction. The debt ratio is expected to improve from 0.90 in 1994 to 0.85 in 1997. As a result of a projected reduction in debt levels, interest costs are expected to decline by more than 10 per cent between 1995 and 1997.

Management Report

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING


The accompanying financial statements of Ontario Hydro are the responsibility of management and have been prepared in accordance with accounting principles generally accepted in Canada, applied on a basis consistent with that of the preceding year. The significant accounting policies followed by Ontario Hydro are described in the Summary of Significant Accounting Policies. The preparation of financial statements necessarily involves the use of estimates based on management's judgement, particularly when transactions affecting the current accounting period cannot be finalized with certainty until future periods. The financial statements have been properly prepared within reasonable limits of materiality and in light of information available up to March 13, 1995. The information presented elsewhere in the Annual Report is consistent with that in the financial statements.

Management maintains a system of internal controls designed to provide reasonable assurance that the assets are safeguarded and that reliable financial information is available on a timely basis. The system includes formal policies and procedures and an organizational structure that provides for appropriate delegation of authority

and segregation of responsibilities. An internal audit function independently evaluates the effectiveness of these internal controls on an ongoing basis and reports its findings to management and the Audit Committee of the Board of Directors. The financial statements have been examined by Ernst & Young, independent external auditors appointed by the Lieutenant-Governor-in-Council of Ontario. The external auditors' responsibility is to express their opinion on whether the financial statements are fairly presented in accordance with generally accepted accounting principles. The Auditors' Report, which appears on page 36, outlines the scope of their examination and their opinion.

The Board of Directors, through the Audit Committee, is responsible for ensuring that management fulfils its responsibilities for financial reporting and internal controls. The Audit Committee meets periodically with management, the internal auditors and the external auditors to satisfy itself that each group has properly discharged its respective responsibility, and to review the financial statements before recommending approval by the Board of Directors. The external auditors have direct and full access to the Audit Committee, with and without the presence of management, to discuss their audit and their findings as to the integrity of Ontario Hydro's financial reporting and the effectiveness of the system of internal controls.

On behalf of Management,



President & Chief Executive Officer



*Executive Vice-President, Chief Financial Officer &
Managing Director, Corporate Business Group*

Toronto, Canada,
March 13, 1995

Auditors' Report

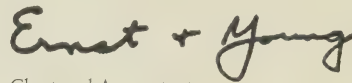
TO THE BOARD OF DIRECTORS OF ONTARIO HYDRO:

We have audited the consolidated statement of financial position of Ontario Hydro as at December 31, 1994 and the consolidated statements of operations and changes in cash position for the year then ended. These financial statements are the responsibility of Ontario Hydro's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require

that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of Ontario Hydro as at December 31, 1994 and the results of its operations and the changes in its cash position for the year then ended in accordance with generally accepted accounting principles.

The logo for Ernst & Young, featuring the company name in a stylized, handwritten-style script.

Chartered Accountants

Toronto, Canada,
March 13, 1995

Consolidated Statement of Operations

for the year ended December 31 (millions of dollars)

REVENUES	1994	1993
Primary power and energy		
Municipal utilities	5,829	5,721
Retail customers	1,688	1,641
Direct industrial customers	866	873
	8,383	8,235
Secondary power and energy (note 2)	349	128
	8,732	8,363
COSTS		
Operation, maintenance and administration	1,705	2,060
Fuel used for electric generation	577	911
Power purchased	316	260
Provincial government levies (note 3)	284	286
Depreciation and amortization (note 4)	1,593	1,506
	4,475	5,023
INCOME BEFORE FINANCING CHARGES	4,257	3,340
Financing charges (note 5)	3,402	3,330
INCOME BEFORE CORPORATE RESTRUCTURING CHARGE AND WRITEOFFS	855	10
Corporate restructuring charge and writeoffs (note 6)	268	3,614
NET INCOME (LOSS)	587	(3,604)

See accompanying notes to financial statements.

Consolidated Statement of Financial Position

as at December 31 (millions of dollars)

ASSETS	1994	1993
Fixed assets (note 7)		
Fixed assets in service	49,495	46,978
Less accumulated depreciation	11,146	9,838
	38,349	37,140
Construction in progress	1,468	3,600
	39,817	40,740
Current assets		
Accounts receivable	1,258	1,207
Fuel for electric generation (note 8)	519	662
Materials and supplies, at cost	281	283
	2,058	2,152
Other assets		
Deferred debt costs	1,046	828
Deferred pension costs (note 17)	169	208
Deferred demand management costs, net of accumulated amortization	396	360
Long-term accounts receivable and other assets	599	418
	2,210	1,814
	44,085	44,706

See accompanying notes to financial statements.

LIABILITIES	1994	1993
Long-term debt (note 9)	30,202	31,848

Current liabilities

Bank indebtedness (note 10)	647	615
Accounts payable and accrued charges	1,242	1,736
Short-term notes payable (note 11)	1,129	1,109
Accrued interest	891	979
Long-term debt payable within one year (note 9)	2,765	1,837
	<u>6,674</u>	<u>6,276</u>

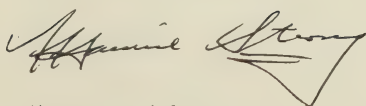
Other liabilities

Unamortized swaption premiums (note 12)	696	853
Long-term accounts payable and accrued charges	553	631
Accrued fixed asset removal and used nuclear fuel disposal costs (note 13)	2,048	1,773
	<u>3,297</u>	<u>3,257</u>

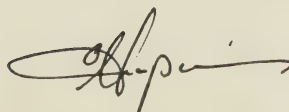
CONTINGENCIES (note 14)**EQUITY**

Retained earnings (note 15)	3,912	3,325
	<u>44,085</u>	<u>44,706</u>

On behalf of the Board,



Chairman, Board of Directors



President & Chief Executive Officer

Toronto, Canada,
March 13, 1995

Consolidated Statement of Changes in Cash Position

for the year ended December 31 (millions of dollars)

	1994	1993
Operating activities		
Net income (loss)	587	(3,604)
Adjust for non-cash items		
Depreciation and amortization	1,593	1,506
Provision for corporate restructuring and writeoffs	33	2,916
Amortization of foreign exchange gains and losses	52	41
Provision for used nuclear fuel disposal costs	93	71
Other	(111)	191
	2,247	1,121
Change in non-cash balances related to operations (note 16)	(20)	211
	2,227	1,332
Financing activities		
Debt for long-term financing		
Issued	2,737	3,829
Retired	(3,700)	(5,468)
	(963)	(1,639)
Redemption of debt for long-term financing, net of re-issuances	(210)	1,186
Cash (paid on settlement) received from sale of swaptions	(72)	857
	(1,245)	404
Investing activities		
Fixed assets	(997)	(1,871)
Other assets	(91)	91
	(1,088)	(1,780)
Change in cash position during the year	(106)	(44)
Cash position at beginning of year	(806)	(762)
Cash position at end of year (note 16)	(912)	(806)

See accompanying notes to financial statements.

Notes to Financial Statements

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying financial statements have been prepared in accordance with accounting principles generally accepted in Canada, applied on a basis consistent with that of the preceding year. The significant accounting policies followed by Ontario Hydro are described below.

Rate setting

Ontario Hydro has broad powers to generate, supply and deliver electric power throughout the Province of Ontario. The Corporation operates under the Power Corporation Act and is subject to the provisions of the Ontario Energy Board Act.

Under the provisions of the Power Corporation Act, the price payable by municipal and other customers for power is the cost of supplying the power. Such cost is defined in the Act to include the cost of operating and maintaining the system, the cost of energy conservation programs, depreciation, interest, and the annual amounts for debt retirement and stabilization of rates and contingencies. The annual amounts for debt retirement and stabilization of rates and contingencies are accounted for as net income. In 1993, Ontario Hydro consolidated the accumulated amounts collected for debt retirement and stabilization of rates and contingencies into one retained earnings account.

Under the provisions of the Ontario Energy Board Act, a public hearing before the Ontario Energy Board is required to review any changes in electricity rates proposed by Ontario Hydro which affect its municipal utilities, direct industrial customers, or, if the Minister of Environment and Energy so directs, retail customers. The Ontario Energy Board then submits its recommendations to the Minister of Environment and Energy. After considering the recommendations of the Ontario Energy Board, Ontario Hydro's Board of Directors, under the authority of the Power Corporation Act, establishes the electricity rates to be charged to customers.

The Board of Directors may specify that an amount related to an item be included in electricity rates of a period which differs from the period in which it would be recognized under generally accepted accounting principles for enterprises operating in a non-rate-regulated environment. If so, the accounting treatment given the item is the same as its treatment for rate-setting purposes. This authority of the Board of Directors may be used in respect of a specific transaction or an accounting policy.

Ontario Hydro's accounting policies relating to discounts and premiums arising from the acquisition of debt prior to maturity and foreign exchange gains and losses on early retirement of debt including short-term replacement financing denominated in United States dollars reflect the rate-setting treatment of these items as specified by the Board of Directors. Under generally accepted accounting principles for enterprises operating in a non-rate-regulated environment these amounts would be included as gains or losses of the current period. The Board of Directors has also used its rate-setting authority to specify that costs of the rehabilitation program for steam generators at Pickering "A" and "B" and Bruce "A" Nuclear Generating Stations shall be deferred for recovery in future periods. Under generally accepted accounting principles for enterprises operating in a non-rate-regulated environment these costs would be expensed as incurred.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Consolidation

The consolidated financial statements include the financial statements of Ontario Hydro and its wholly-owned subsidiary Ontario Hydro International Inc. (OHI Inc.). OHI Inc. was incorporated under the Ontario Business Corporations Act and was established as a subsidiary of Ontario Hydro in September, 1993.

Fixed assets

Fixed assets in service include operating facilities and non-operating reserve facilities, and heavy water held for use in nuclear generating stations. Construction in progress includes fixed assets under construction.

Fixed assets are capitalized at cost which comprises material, labour, engineering costs, overheads, depreciation on service equipment, interest applicable to capital construction activities, and for new facilities, the costs of training initial operating staff. In the case of generating facilities, the cost also includes the net cost of commissioning which comprises the cost of start-up less the value attributed to energy produced by generation facilities during their commissioning period. For multi-unit facilities, a proportionate share of the cost of common facilities is placed in service with each major operating unit. The cost of heavy water comprises the direct cost of production and applicable overheads, as well as interest and depreciation on the heavy water production facilities and the estimated removal costs of these facilities. Leases which transfer the benefits and risks of ownership of assets to Ontario Hydro are capitalized.

Interest is capitalized on construction in progress at rates (1994 - 10.2 per cent, 1993 - 9.8 per cent representing the average cost of long-term funds borrowed in the years in which expenditures have been made for fixed assets under construction) which approximate the average cost of all long-term funds borrowed. If the construction period of a project is extended and the construction activities are continued, interest is capitalized during the period of extension provided that the project has a reasonable expectation of being completed.

If a project is cancelled or deferred indefinitely with a low probability of resuming construction, all costs, including the costs of cancellation, are written off to operations.

If fixed assets are removed from operations and mothballed for future use, classified as non-operating reserve facilities, the costs of mothballing are charged to operations.

Depreciation

The capital costs of fixed assets in service are depreciated on a straight-line basis, with the exception of heavy water held to replace losses occurring during the operation of Ontario Hydro's nuclear generating stations. Heavy water held for this purpose is depreciated on a sinking fund basis over the period through to the first year heavy water from an out-of-service nuclear station is estimated to be available for replacement purposes. Depreciation rates for the various classes of assets are based on their estimated service lives. Major components of fossil and nuclear generating stations are depreciated over the lesser of the service life expectancy of the major component or the remaining service life of the associated generating station; for hydroelectric generating stations, major components are depreciated over the service life expectancy of the component, ranging from 25 to 100 years. The estimated service lives of assets in the major classes are:

Generating stations	– fossil	– 40 years
	– nuclear	– 40 years
Heavy water	– in nuclear generating stations	– over the period ending in the year 2040
	– held for use in nuclear generating stations	– over the period ending in the year 2011
Transmission and distribution facilities		– 10 to 100 years
Administration and service facilities		– 5 to 65 years

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

In accordance with group depreciation practices, for normal retirements the cost of fixed assets retired is charged to accumulated depreciation with no gain or loss reflected in operations. However, gains and losses on sales of fixed assets and losses on premature retirements are charged to operations in the year incurred as adjustments to depreciation expense.

When the costs of removal less residual value on retirements of fixed assets can be reasonably estimated and are significant, provisions for these costs, except for those related to heavy water production facilities, are charged to depreciation expense on an annuity basis over the remaining service life of the related fixed assets. Removal costs that are provided for include the estimated costs of decommissioning nuclear and fossil stations and heavy water production facilities, and the estimated costs of removing certain nuclear reactor fuel channels. Other removal costs are charged to depreciation expense as incurred.

The estimated service lives of fixed assets and the significant assumptions underlying the estimates of fixed asset removal costs are subject to periodic review. Any changes arising out of such a review are implemented on a remaining service life basis from the year the changes can first be reflected in electricity prices.

Non-operating reserve facilities are amortized so that any estimated loss in value is charged to depreciation expense on a straight-line basis over their expected non-operating period.

Heavy water sales

Ontario Hydro has produced sufficient quantities of heavy water to meet future needs of its existing nuclear generating stations and is now producing heavy water for sales to external parties. Revenues from external sales contracts requiring the production of heavy water far in advance of delivery dates are recognized on a percentage-of-completion basis and revenues from all other heavy water sales are recognized at the point of sale. Resulting profits or losses are credited or charged to operations in the year incurred.

Fuel for electric generation

Fuel used for electric generation comprises the average inventory costs of fuel consumed, the value attributed to commissioning energy produced, and provisions for disposal of nuclear fuel used during the period. The inventory cost of fuel consumed comprises fuel purchases, transportation and handling costs.

The value attributed to commissioning energy produced during the period represents the incremental operating and fuel costs of producing the same quantity of energy at generating units displaced because of the commissioning activity. The costs for disposal of nuclear fuel used in each period are charged to operations based on estimated future expenditures and interest accumulating to the estimated date of disposal. Estimates of expenditures, interest and escalation rates, and the date of disposal are subject to periodic review. Adjustments resulting from changes in estimates are charged to operations on an annuity basis over the period from the year the changes can first be reflected in electricity prices to the estimated in-service date of the disposal facility.

Foreign currency translation

Current monetary assets and liabilities in foreign currencies are translated to Canadian currency at year-end rates of exchange and the resultant exchange gains or losses are credited or charged to operations. Long-term debt payable in foreign currencies is translated to Canadian currency at year-end rates of exchange. Resulting unrealized exchange gains or losses are deferred and included in deferred debt costs, and are amortized to operations on an annuity basis over the remaining life of the related debt.

Foreign exchange gains or losses on hedges of long-term debt payable in foreign currencies are deferred and included in deferred debt costs. The deferred gains or losses on hedges are amortized to operations in the periods the hedges provide benefit.

Foreign exchange gains or losses on early redemption of long-term debt, including subsequent gains and losses on short-term replacement financing, are deferred and included in deferred debt costs if the exposure in the foreign currency related to the redeemed debt is continued by refinancing the redeemed debt in the same currency. These deferred

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

gains or losses are amortized on an annuity basis over the period to the original maturity date of the redeemed debt. If the foreign currency exposure is reduced as a result of the early redemption of debt, the resulting foreign exchange gains or losses related to the redeemed debt are credited or charged to operations.

Deferred debt costs

Deferred debt costs include the unamortized amounts related to unrealized foreign exchange gains or losses resulting from the translation of foreign currency long-term debt; deferred foreign exchange gains or losses on hedges; deferred foreign exchange gains or losses on the early redemption of long-term debt; discounts or premiums arising from the issuance of debt or the acquisition of debt prior to maturity; discounts or premiums accrued on foreign currency hedges; and net unamortized premiums on settled, exercised or expired swaption contracts.

Discounts or premiums arising from the issuance of debt are amortized over the period to maturity of the debt.

Discounts or premiums on debt acquired prior to the date of maturity are amortized over the period from the acquisition date to the original maturity date of the debt. Discounts or premiums on foreign currency hedges are credited or charged to operations over the terms of the individual hedges. Net unamortized premiums on settled, exercised or expired swaption contracts are amortized over the period from the settlement, exercise or expiry date to the original maturity date of the related debt.

Demand management

Demand management activities undertaken by Ontario Hydro encourage customers to conserve or use electricity more efficiently. Demand management costs that have reasonably assured and specifically identifiable future benefits to Ontario Hydro are deferred and amortized to operations on a straight-line basis over the periods that benefit. All other costs are charged to operations as incurred. The benefit periods of deferred demand management costs are subject to periodic review. Any changes arising out of such a review are implemented on a remaining benefit period basis from the year the changes can first be reflected in electricity prices.

Pension plan

The pension plan is a contributory, defined benefit plan covering all regular employees of Ontario Hydro. Pension costs for accounting purposes are actuarially determined using the projected benefit method prorated on services and based on assumptions that reflect management's best estimate of the effect of future events on the actuarial present value of accrued pension benefits. Pension plan assets are valued using current market values and pension plan adjustments are amortized on a straight-line basis over the expected average remaining period of service of the employees covered by the Ontario Hydro pension plan.

Research and development

Research and development costs are charged to operations in the year incurred, except for those related directly to the design or construction of a specific capital facility which are capitalized as part of the cost of the facility.

2. SECONDARY POWER AND ENERGY

Secondary power and energy revenues include \$345 million (1993 - \$125 million) from sales of electricity to United States utilities.

3. PROVINCIAL GOVERNMENT LEVIES *(millions of dollars)*

	1994	1993
Provincial water rentals	110	112
Provincial debt guarantee fee	174	174
	284	286

3. PROVINCIAL GOVERNMENT LEVIES *(continued)*

Provincial water rentals are the amounts paid to the Province of Ontario for the use of water for hydroelectric generation. The Province of Ontario has legislated that Ontario Hydro pay to the Province an annual debt guarantee fee of one half of one percent on the total debt guaranteed by the Province, outstanding as of the preceding December 31.

4. DEPRECIATION AND AMORTIZATION *(millions of dollars)*

	1994	1993
Depreciation of fixed assets in service	1,421	1,369
Amortization of other deferred costs	-	39
Amortization of deferred demand management costs	31	22
Fixed asset removal costs	137	158
Other removal costs	13	46
	1,602	1,634
Less:		
Depreciation charged to		
- construction in progress	8	75
- heavy water production	-	49
- fuel for electric generation	-	1
Other	1	3
	9	128
	1,593	1,506

Depreciation of fixed assets in service for 1994 includes \$28 million relating to the depreciation of heavy water held to replace losses occurring during the operation of Ontario Hydro's nuclear generating stations. Prior to 1994, operation, maintenance and administration costs included a charge for actual quantities of heavy water used for this purpose (1993 - \$47 million). Following the termination in 1993 of heavy water production for Ontario Hydro's use, the accounting for the cost of heavy water held for use in nuclear generating stations was changed to ensure the cost is fully depreciated once additional heavy water becomes available from an out-of-service nuclear station.

5. FINANCING CHARGES *(millions of dollars)*

	1994	1993
Interest on bonds, notes and other debt		
- long-term	3,331	3,693
- short-term	101	48
Interest on accrued fixed asset removal and used nuclear fuel disposal costs	112	108
	3,544	3,849
Less:		
Interest charged to		
- construction in progress	104	398
- heavy water production	-	48
- fuel for electric generation	6	7
Interest earned on investments	74	74
	184	527
Interest charged to operations	3,360	3,322
Foreign exchange	42	8
	3,402	3,330

6. CORPORATE RESTRUCTURING CHARGE AND WRITEOFFS (millions of dollars)

	1994	1993
Staff reduction and relocation costs	268	748
Asset write-offs and write-downs	—	2,009
Excess capacity provision	—	643
Other restructuring costs	—	214
	268	3,614

In March 1993, the Board of Directors of Ontario Hydro approved an extensive cost-reduction and restructuring program, which was designed to enable Ontario Hydro to seek no rate increase in 1994 and to freeze rates in real terms for the remainder of the decade. The restructuring program resulted in charges and writeoffs to net income in 1993 and 1994.

The 1993 charge includes costs associated with voluntary staff reductions of about 5,000 regular employees. As part of the 1993 restructuring, Ontario Hydro also decided to write off and no longer seek recovery of additional amounts which, as a result of past decisions, were being carried on its balance sheet for recovery from customers in future years. The 1993 corporate restructuring charge also reflects a provision for the shutdown and mothballing costs of certain generating units due to the surplus generating capacity.

In 1994 through a review of the restructuring program initiated in 1993 and the business planning process, the Corporation identified the need for additional staff reductions of approximately 2,400 positions. A Special Separation Plan was approved by the Board of Directors in December 1994 to attract as many voluntary staff departures as possible, with the balance to be achieved through involuntary measures, if required. A provision of \$268 million was charged against income for 1994 to cover the estimated cost of the voluntary and involuntary staff reductions as well as costs related to surplus assets, lease cancellations and relocation costs related to the staff reductions.

7. FIXED ASSETS (millions of dollars)

		1994		
		Fixed Assets in Service	Accumulated Depreciation	Construction in Progress
Generating stations	— hydroelectric	2,405	800	601
	— fossil	5,344	2,083	36
	— nuclear	24,375	4,141	486
Heavy water		5,343	645	—
Transmission and distribution		10,180	2,553	342
Administration and service facilities		1,848	924	3
		49,495	11,146	1,468

		1993		
		Fixed Assets in Service	Accumulated Depreciation	Construction in Progress
Generating stations	— hydroelectric	2,351	769	589
	— fossil	4,774	1,900	507
	— nuclear	24,322	3,422	457
Heavy water		4,040	515	1,316
Transmission and distribution		9,686	2,357	686
Administration and service facilities		1,805	875	45
		46,978	9,838	3,600

7. FIXED ASSETS *(continued)*

Nuclear steam generator rehabilitation costs: Ontario Hydro has undertaken a major program to rehabilitate steam generators at Pickering "A" and "B" and Bruce "A" Nuclear Generating Stations. Costs of the program, which will continue until 1998, have been deferred and will be amortized over the remaining service lives of the individual generators commencing as each generator is returned to service. Deferred nuclear steam generator rehabilitation costs of \$71 million are included in nuclear generating station construction in progress as at December 31, 1994.

8. FUEL FOR ELECTRIC GENERATION *(millions of dollars)*

	1994	1993
Inventories		
– uranium	135	199
– coal	319	371
– oil	65	92
	519	662

9. LONG-TERM DEBT *(millions of dollars)*

	1994	1993
Bonds and notes payable	32,928	33,645
Other long-term debt	39	40
	32,967	33,685
Less payable within one year	2,765	1,837
	30,202	31,848

Bonds and notes payable, expressed in Canadian dollars, are summarized by years of maturity in the following table:

Years of Maturity	1994			1993		
	Canadian	Principal Outstanding Foreign	Total	Weighted Average Interest Rate (percent)	Principal Outstanding Total	Weighted Average Interest Rate (percent)
1994	–	–	–		1,835	
1995	1,870	892	2,762		2,697	
1996	2,566	160	2,726		2,460	
1997	1,000	491	1,491		1,056	
1998	2,500	701	3,201		3,253	
1999	2,150	–	2,150		–	
1 - 5 years	10,086	2,244	12,330	9.3	11,301	10.0
6 - 10 years	8,651	933	9,584	10.1	9,918	10.2
11 - 15 years	2,929	–	2,929	10.2	2,547	10.0
16 - 20 years	1,634	2,143	3,777	11.3	4,905	11.0
21 - 25 years	–	–	–	–	648	10.0
26 years and over	4,308	–	4,308	10.1	4,326	10.1
	27,608	5,320	32,928	10.0	33,645	10.2

9. LONG-TERM DEBT *(continued) (millions of dollars)*

As described in note 12, Ontario Hydro has used various derivative financial instruments to hedge the foreign exchange exposure related to long-term debt denominated in foreign currencies. The following table summarizes the currencies in which Ontario Hydro's long-term debt is payable, before and after giving effect to Ontario Hydro's hedging activities:

	1994		1993	
	Principal Outstanding		Principal Outstanding	
	Before Hedging	After Hedging	Before Hedging	After Hedging
Canadian dollars	27,608	29,484	27,838	30,080
United States dollars	5,088	3,444	5,673	3,565
Swiss francs	161	—	134	—
Japanese yen	71	—	—	—
	32,928	32,928	33,645	33,645

Bonds and notes payable are either held, or guaranteed as to principal and interest, by the Province of Ontario.

Bonds and notes payable in United States dollars include \$1,091 million (1993 - \$2,052 million) of Ontario Hydro bonds held by the Province of Ontario having terms identical with Province of Ontario issues sold in the United States on behalf of Ontario Hydro.

As described in note 12, Ontario Hydro has used various derivative financial instruments to manage the interest rate risk associated with its outstanding long-term debt.

10. BANK INDEBTEDNESS

Short-term bank lines of credit are available to Ontario Hydro in the amount of \$600 million (1993 - \$600 million), of which \$595 million was utilized at year end (1993 - \$575 million). The lines of credit are unsecured and bear interest at less than the prime rate.

11. SHORT-TERM NOTES PAYABLE *(millions of dollars)*

	1994	1993
Short-term notes used for cash management	265	191
Short-term notes used for long-term financing	864	918
	1,129	1,109

Certain bond issues were called and refinanced at favourable interest rates by issuing short-term notes. Financial arrangements were also entered into so as to achieve a fixed interest rate on most of the refinanced issues.

12. DERIVATIVE FINANCIAL INSTRUMENTS *(millions of stated currency)*

Ontario Hydro has used a variety of derivative financial instruments to manage foreign exchange and interest rate risk. Derivative financial instruments expose Ontario Hydro to credit risk, since there is a risk of counterparty default. This

12. DERIVATIVE FINANCIAL INSTRUMENTS (continued) (millions of stated currency)

risk is limited to the cost of replacing contracts in which Ontario Hydro has an unrealized gain. Credit risk is monitored and minimized by dealing only with highly rated counterparties. The following table summarizes outstanding positions in derivative financial instruments as at December 31, 1994:

	1994			1993		
	Notional Principal Outstanding				Notional Principal Outstanding Total	Weighted Average Rate
	Maturing in 1995	Maturing beyond 1995	Total	Weighted Average Rate		
Foreign exchange risk management techniques:						
Forward exchange contracts						
Purchased forward	us\$309	us\$259	us\$568	\$1.33	us\$1,128	\$1.26
Sold forward	us\$1	us\$181	us\$182	\$1.35	us\$185	\$1.35
Cross currency swap contracts						
Ontario Hydro receives foreign currency:						
United States dollar	us\$600	us\$56	us\$656	\$1.17 ¹	us\$656	\$1.17 ¹
Swiss franc	nil	sf 150	sf 150	\$1.00 ¹	sf 150	\$1.00 ¹
Japanese yen	nil	¥5,000	¥5,000	\$0.013 ¹	nil	nil
¹ contracted rate for exchange of principal						
Foreign currency option combination contracts						
	us\$549	nil	us\$549	n/a	nil	n/a
Interest rate risk management techniques:						
Swaption contracts sold						
Ontario Hydro potentially pays fixed	nil	c\$2,199	c\$2,199	10.7%	c\$2,628	10.5%
	nil	us\$777	us\$777	14.8%	us\$1,043	13.5%
Interest rate swap contracts						
Ontario Hydro receives fixed	nil	c\$3,115	c\$3,115	7.1%	c\$1,425	6.2%
	nil	us\$500	us\$500	5.1%	us\$500	5.1%
Ontario Hydro pays fixed	c\$3,701	c\$459	c\$4,160	6.1%	c\$4,663	5.9%
	us\$540	us\$255	us\$795	4.9%	us\$1,029	4.5%
Forward rate agreements						
Ontario Hydro pays forward rate	c\$795	nil	c\$795	6.2%	nil	nil
	us\$177	nil	us\$177	6.0%	nil	nil

Foreign exchange risk management techniques

Forward exchange contracts: Ontario Hydro has entered into forward exchange contracts to purchase US dollars, the majority of which hedge US dollar principal and interest payments on bond issues. In addition, forward exchange contracts were entered into to sell US dollars to hedge some future US dollar revenues.

12. DERIVATIVE FINANCIAL INSTRUMENTS (continued)

Cross currency swap contracts: Ontario Hydro has entered into cross currency swap contracts to effectively convert foreign currency principal and interest payments on selected debt issues into Canadian dollars.

Foreign currency option combination contracts: Ontario Hydro has entered into foreign currency option combination contracts to hedge against the impact of a potential decline in the value of the Canadian dollar in 1995. These contracts provide Ontario Hydro with protection against a decline in the value of the Canadian dollar within a particular range of exchange rates. As a result of these contracts, Ontario Hydro does not benefit from a rise in the value of the Canadian dollar beyond a particular level.

Interest rate risk management techniques

Swaption contracts sold: Several of Ontario Hydro's outstanding bond issues are callable by Ontario Hydro at fixed prices on dates before their stated maturities. In 1993 Ontario Hydro converted future potential interest savings related to call options embedded in certain of its bonds to cash, by selling offsetting swaption contracts. These contracts permit holders to require Ontario Hydro to enter into interest rate swaps commencing on the call date. If exercised, the swaptions result in Ontario Hydro making payments based on a fixed interest rate equal to the related bonds' coupon rates, and receiving floating rate payments. Premiums received from the sale of these contracts are being amortized to income, as a reduction of interest expense, over the remaining terms of the related bond issues.

Interest rate swap contracts: As at December 31, 1994, the outstanding receive-fixed interest rate swap contracts have effectively converted fixed interest rates on long-term debt to floating interest rates. These contracts have maturity dates over the period 1998 to 2004. The outstanding pay-fixed interest rate swap contracts have effectively converted floating interest rates on outstanding debt into fixed interest rates. The majority of the Canadian dollar pay-fixed interest rate swaps mature in 1995, while the US dollar pay-fixed interest rate swaps mature over the period 1995 to 2002.

Forward rate agreements: Ontario Hydro has entered into forward rate agreements to hedge against a rise in short-term borrowing rates in early 1995. The agreements effectively fix Ontario Hydro's interest costs for terms of three months or less beginning in early 1995.

After giving effect to interest rate derivative financial instruments outstanding as at December 31, 1994, the total amount of long-term debt, bank indebtedness and short-term notes maturing or subject to interest rate resetting in 1995 is approximately \$8,600 million. This amount will be affected by treasury activities and the borrowing program in 1995.

13. ACCRUED FIXED ASSET REMOVAL AND

USED NUCLEAR FUEL DISPOSAL COSTS (millions of dollars)	1994	1993
Accrued fixed asset removal costs		
– accrued decommissioning costs	621	588
– accrued fuel channel removal costs	519	394
	1,140	982
Accrued used nuclear fuel disposal costs	908	791
	2,048	1,773

Fixed asset removal costs

Fixed asset removal costs are the costs of decommissioning nuclear and fossil generating stations and heavy water production facilities after the end of their service lives, and the costs of removing certain fuel channels which are expected to be replaced during the life of the nuclear reactors.

13. ACCRUED FIXED ASSET REMOVAL AND USED NUCLEAR FUEL DISPOSAL COSTS *(continued)*

The significant assumptions used in estimating fixed asset removal costs were:

- decommissioning of nuclear generating stations in the 2042 to 2062 period on a deferred dismantlement basis (dismantlement following storage with surveillance for a 30-year period after shutdown of the reactors), and a transportation distance of 1,000 kilometres from nuclear generating facilities to disposal facilities;
- dismantlement of Bruce Heavy Water Plants "A", "B" and "D" in the 1994 to 2005 period;
- interest rates through to 2065 ranging from 8% to 10% (1993 - 9% to 10%);
- escalation rates through to 2065 ranging from 2% to 7% (1993 - 3% to 7%); and
- removal of fuel channels in nuclear generating stations during the following periods (1993 comparative in brackets):

Bruce "A" Units 1,3 & 4	1997 to 2007 (1994 to 2007)
Pickering "B"	2009 to 2016 (2009 to 2016)
Bruce "B"	2011 to 2019 (2011 to 2019)
Darlington	2016 to 2024 (2016 to 2024).

Because of possible changes to the above factors and the methods used for decommissioning and fuel channel removal, these costs are subject to revision. In February 1994, Ontario Hydro decided to shut down Unit 2 at Bruce "A" Nuclear Generating Station in 1995. The accumulated fixed asset removal provision relating to the retubing of Unit 2 was used to reduce the amount relating to the shutdown of Unit 2 charged to the 1993 corporate restructuring charge.

Used nuclear fuel disposal costs

The significant assumptions used in estimating the future used nuclear fuel disposal costs were:

- an in-service date of the year 2025 (1993 - 2025) for used nuclear fuel disposal facilities;
- a transportation distance of 1,000 kilometres from nuclear generating facilities to disposal facilities;
- interest rates through to the disposal date ranging from 8% to 10% (1993 - 9% to 10%); and
- escalation rates through to the disposal date ranging from 2% to 7% (1993 - 3% to 7%).

Because of the uncertainties associated with the technology of disposal and the above factors, these costs are subject to change.

14. CONTINGENCIES

Manitoba Hydro

In December 1992, due to a projected surplus in generating capacity, Ontario Hydro exercised its right to terminate its long-term power purchase contract with Manitoba Hydro. In Manitoba Hydro's certificate of costs for reimbursement, an amount of \$49 million was claimed for costs incurred by Manitoba Hydro prior to entering into the contract with Ontario Hydro on December 7, 1989. Ontario Hydro is of the opinion that costs incurred by Manitoba Hydro before December 7, 1989 are not reimbursable by Ontario Hydro under the contract. As well, based on a review of the certificate of costs, it appears that the total cost claimed by Manitoba Hydro may have been overstated. Ontario Hydro has commenced an action against Manitoba Hydro for a declaration that Ontario Hydro is not obliged to pay costs incurred prior to entering into the contract and for a further judgment against Manitoba Hydro requiring the repayment of amounts which were improperly claimed by Manitoba Hydro and paid by Ontario Hydro under the contract. In July 1994, Manitoba Hydro issued its statement of defence and counterclaim to Ontario Hydro. Manitoba Hydro claims that they are entitled to an immediate payment from Ontario Hydro of \$55 million, representing the claim for costs incurred by Manitoba Hydro prior to entering into the contract, plus interest. At this time, the outcomes of these claims are not determinable, and as such, no provision has been accrued in Ontario Hydro's financial statements with respect to any amounts in dispute.

15. RETAINED EARNINGS (*millions of dollars*)

	1994	1993
Balance at beginning of year	3,325	6,931
Net income (loss)	587	(3,604)
Net refunds on annexation by municipalities	-	(2)
Balance at end of year	3,912	3,325

The balance in this account is retained for purposes prescribed under the Power Corporation Act.

16. CONSOLIDATED STATEMENT OF CHANGES IN CASH POSITION (*millions of dollars*)

Cash position is defined to be cash and short-term investments less bank indebtedness and short-term notes used for cash management.

Cash position is comprised of the following:

	1994	1993
Bank indebtedness	(647)	(615)
Short-term notes used for cash management (note 11)	(265)	(191)
	(912)	(806)

The changes in non-cash balances related to operations consisted of the following:

	1994	1993
Accounts receivable - (increase)	(51)	(175)
Fuel for electric generation - decrease	143	286
Materials and supplies - decrease (increase)	2	(7)
Accounts payable and accrued charges - (decrease) increase	(73)	43
Accrued interest - (decrease) increase	(87)	28
Long-term accounts payable and accrued charges - increase	46	36
	(20)	211

17. BENEFIT PLANS

Ontario Hydro's employee benefit programs include the pension plan, the group life insurance plan, the long-term disability plan and the group health care plan.

Pension plan

Regular pension costs for 1994 were \$76 million (1993 - \$161 million). In 1994, \$50 million (1993 - \$106 million) of the pension costs were charged to operations and \$26 million (1993 - \$55 million) were capitalized. In addition, included in the corporate restructuring charge are costs of \$19 million associated with the 1994 staff reduction program (1993 - \$327 million). Effective January 1, 1994, Ontario Hydro implemented certain changes with respect to accounting for pension costs. Pension plan assets are valued using current market values and pension plan adjustments are amortized on a straight-line basis over the expected average remaining period of service of the employees covered by the Ontario Hydro pension plan. Previously, pension plan assets were valued using a five-year market value average and pension plan adjustments were amortized on an annuity basis. These changes in accounting for pension costs have no material effect on pension costs for 1994.

17. BENEFIT PLANS *(continued)*

The pension costs for 1994 were actuarially determined for accounting purposes using the following significant assumptions which take into consideration the long-term nature of the pension plan:

- rate used to discount future pension benefits - 8.00% (1993 - 6.50%);
- rate used to estimate interest cost - 8.00% (1993 - 6.50%);
- rate used to estimate return on investments - 9.00% (1993 - 8.75%);
- salary schedule escalation rate - 3.00% (1993 - 3.50%);
- average long-term rate used to estimate improvements in pension benefits to partially offset the effect of increase in cost of living - 1.69% (1993 - 2.44%); and
- average remaining service period of employees - 17 years (1993 - 17 years).

Based on these assumptions, the actuarial present value of the accrued pension benefits is estimated to be \$5,700 million as at December 31, 1994 (1993 - \$7,201 million), and the pension plan assets available for these benefits were approximately \$6,700 million based on current market values (1993 - \$6,317 million based on a five-year market value average).

Deferred pension costs on the statement of financial position represent the cumulative difference between the funding contributions, including special payments, and pension costs. As at December 31, 1994, the deferred pension costs amounted to \$169 million (1993 - \$208 million) and primarily reflect special payments made in 1990 and 1991 relating to past service benefit improvements offset by costs associated with the 1993 voluntary staff reduction program. The costs of pension benefit improvements funded by the special payments are being amortized as a charge to pension costs on a straight-line basis over the average remaining service period of employees.

Long-term disability plan

The long-term disability plan is entirely funded by Ontario Hydro. For 1994 contributions to the plan amounted to \$4 million (1993 - \$12 million).

Group life insurance plan

Ontario Hydro paid \$3 million (1993 - \$5 million) in premiums for basic insurance coverage for employees. Premiums for additional coverage, if requested, are paid for by the employee.

Group health care plan

Ontario Hydro provides a group health care plan to its employees. In 1994, the cost of providing these benefits was \$61 million (1993 - \$63 million).

Other post-retirement benefits

In addition to pension benefits, Ontario Hydro provides group life insurance and health care benefits to its retired employees and, in certain cases, their surviving spouses and unmarried dependents. The cost of providing the group life insurance and health care benefits is charged to operations as the benefits are paid. In 1994, the cost of providing these benefits was \$19 million (1993 - \$15 million).

18. RESEARCH AND DEVELOPMENT

In 1994, approximately \$128 million of research and development costs were charged to operations and \$37 million were capitalized (1993 - \$129 million and \$42 million, respectively).

19. COMPARATIVE FIGURES

Certain of the 1993 comparative figures in the financial statements have been reclassified to conform with the 1994 financial statement presentation.

Five-Year Summary of Financial and Operating Statistics

(millions of dollars)

	1994	1993	1992	1991	1990
Revenues					
Primary power and energy					
Municipal utilities	5,829	5,721	5,281	4,873	4,373
Retail customers	1,688	1,641	1,568	1,397	1,297
Direct industrial customers	866	873	863	811	792
	8,383	8,235	7,712	7,081	6,462
Secondary power and energy	349	128	56	62	22
	8,732	8,363	7,768	7,143	6,484
Costs					
Operation, maintenance and administration	1,705	2,060	2,246	2,037	1,927
Fuel used for electric generation	577	911	1,137	1,122	1,020
Power purchased	316	260	186	151	477
Provincial government levies	284	286	270	252	235
Depreciation and amortization	1,593	1,506	1,198	1,136	908
	4,475	5,023	5,037	4,698	4,567
Income before financing charges	4,257	3,340	2,731	2,445	1,917
Financing charges					
Gross interest	3,544	3,849	3,782	3,586	3,204
Capitalized interest	(110)	(453)	(1,231)	(1,194)	(1,318)
Investment income	(74)	(74)	(119)	(158)	(83)
Foreign exchange	42	8	(13)	7	(15)
	3,402	3,330	2,419	2,241	1,788
Income before restructuring charge	855	10	312	204	129
Corporate restructuring charge and writeoffs	268	3,614	-	-	-
Net income (loss)	587	(3,604)	312	204	129
Financial position					
Total assets	44,085	44,706	46,671	43,244	39,373
Fixed assets	39,817	40,740	40,690	38,170	35,139
Long-term debt ¹	32,967	33,685	34,034	32,160	29,378
Equity	3,912	3,325	6,931	6,619	6,416
Cash flows					
Cash provided from operating activities	2,227	1,332	1,691	1,381	754
Cash provided from financing activities	(1,245)	404	1,784	2,743	2,515
Cash used for investment in fixed assets	997	1,871	3,375	3,356	3,592
Investment in fixed assets	1,072	2,296	3,527	3,934	3,544

	1994	1993	1992	1991	1990
Financial indicators					
Interest coverage - before restructuring charge ²	1.25	1.00	1.09	1.06	1.04
Interest coverage - after restructuring charge ²	1.17	0.04	-	-	-
Debt ratio ³	0.904	0.918	0.841	0.838	0.829
Primary energy sales⁴ <i>millions of kilowatt-hours</i>					
Municipal utilities	93,347	92,047	91,317	93,623	92,116
Retail customers	18,499	18,519	18,938	18,988	19,444
Direct industrial customers	17,182	17,221	18,094	18,353	19,315
	129,028	127,787	128,349	130,964	130,875
Secondary energy sales⁴ <i>millions of kilowatt-hours</i>					
	12,628	4,807	1,896	2,123	577
Energy and Demand					
Installed dependable peak capacity <i>megawatts⁵</i>	34,432	34,537	32,863	32,669	31,672
December primary peak demand <i>megawatts</i>	21,849	20,506	21,339	22,933	21,785
Primary energy made available <i>millions of kilowatt-hours⁶</i>	134,874	133,769	134,376	136,966	136,744
Number of primary customers⁴					
Municipal utilities	306	309	311	311	314
Retail customers	954,440	942,812	940,617	925,641	918,368
Direct industrial customers	103	104	107	109	119
Average revenue⁴ <i>in cents per kilowatt-hour of total energy sales</i>					
Primary power and energy					
Municipal utilities	6.244	6.216	5.783	5.205	4.747
Retail customers	9.684	9.265	8.884	7.883	7.352
Direct industrial customers	5.040	5.069	4.770	4.419	4.100
All primary customers combined	6.551	6.485	6.070	5.459	5.024
Secondary power and energy	2.764	2.663	2.954	2.920	3.813
All classifications combined	6.211	6.346	6.024	5.419	5.001
Average rate increases <i>expressed as a per cent</i>					
Municipal utilities	0.0	8.2	11.8	8.7	6.1
Retail customers	0.0	6.5	11.8	8.7	5.3
Direct industrial customers	0.0	8.2	11.8	7.8	5.6
All primary customers combined	0.0	7.9	11.8	8.6	5.9

Five-Year Summary of Financial and Operating Statistics

(continued)

	1994	1993	1992	1991	1990
Average cost^{4,7} in cents per kilowatt-hour of energy generated					
Hydroelectric					
Operation, maintenance and administration	.307	.277	.280	.299	.271
Water rentals	.336	.330	.317	.338	.303
Depreciation, debt guarantee fee and financing charges	.543	.488	.454	.424	.373
	1.186	1.095	1.051	1.061	.947
Nuclear					
Operation, maintenance and administration	.948	1.017	1.229	1.033	1.100
Uranium	.270	.514	.515	.502	.490
Depreciation, debt guarantee fee and financing charges	3.529	3.910	3.080	2.756	2.631
	4.747	5.441	4.824	4.291	4.221
Fossil					
Operation, maintenance and administration	1.310	1.303	.960	.839	.899
Coal, gas and oil	2.378	2.515	2.426	2.388	2.479
Depreciation, debt guarantee fee and financing charges	3.607	3.011	1.645	1.489	1.274
	7.295	6.829	5.031	4.716	4.652
Average number of employees⁴					
Regular	22,525	26,442	28,835	28,396	26,821
Non-regular ⁸	2,082	3,331	6,004	7,309	9,653

1 Long-term debt includes long-term debt payable within one year.

2 Interest coverage represents net income plus interest on bonds, notes, and other debt divided by interest on bonds, notes and other debt.

3 Debt ratio represents debt (bonds and notes payable, short-term notes payable, other long-term debt, unamortized swaption premiums, accrued fixed asset removal and used nuclear fuel disposal costs and bank indebtedness less unamortized foreign exchange gains and losses) divided by debt plus equity.

4 Figures for 1994 are preliminary.

5 Installed dependable peak capacity represents the net output power supplied by all generating units, non-operating reserve facilities (1994 - 4,297 MW; 1993 - 2,686 MW; 1992 - 1,554 MW; 1991 - 1,546 MW; and 1990 - 1,551 MW), net firm power purchase contracts and purchases from non-utility generators.

6 Primary energy made available represents primary energy sales plus transmission losses and energy used for heavy water production and generation projects.

7 Average cost per kilowatt-hour represents the costs attributable to generation but excludes the costs related to transmission, distribution and corporate administrative activities. These figures reflect the historical accounting costs of operating facilities and the actual energy generated by these facilities during the year.

8 The majority of non-regular staff are construction trades persons.

CUSTOMERS SERVED BY ONTARIO HYDRO AND ASSOCIATED MUNICIPAL UTILITIES

	1994 ¹	1993	1992	1991	1990
Total number of customers <i>in thousands</i>					
Residential	3,298	3,252	3,205	3,163	3,129
Farm	103	103	104	105	105
Commercial and industrial	438	436	430	428	420
	3,839	3,791	3,739	3,696	3,654

Average annual use <i>in kilowatt-hours per customer</i>					
Residential	10,917	10,965	11,024	11,581	11,668
Farm	23,138	23,660	23,496	23,945	23,945
Commercial and industrial	201,000	198,841	201,112	205,982	212,193

Average revenue ² <i>in cents per kilowatt-hour</i>					
Residential	8.82	8.77	8.12	7.23	6.68
Farm	8.93	8.82	8.19	7.34	6.80
Commercial and industrial	6.75	6.76	6.31	5.70	5.22
All customers	7.38	7.38	6.86	6.16	5.67

1 Figures for 1994 are preliminary.

2 Includes rural rate assistance.

BOARD OF DIRECTORS



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Ontario Hydro



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Vice-Chairman, Board of Directors
Dean, Faculty of Engineering Science
University of Western Ontario



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President
Ontario Hydro
(appointed Chief Executive Officer
effective Jan. 26, 1995)



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Executive Vice-President,
Chief Financial Officer &
Managing Director,
Corporate Business Group
Ontario Hydro



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President
Nuala Beck & Associates Inc.



MICHAEL CASSIDY
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The Ginger Group Consultants



KEALEY C. CUMMINGS
Former National Secretary/Treasurer
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and Energy
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IBM Canada Ltd.
(retired Feb. 15, 1995)



DONA HARVEY
Journalist
Kitchener-Waterloo Record



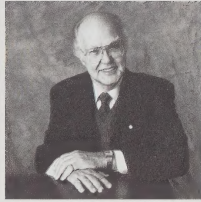
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Lawyer
Hinds & Sinclair



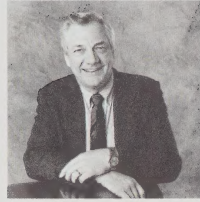
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President
Hurley & Associates Inc.



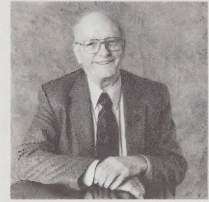
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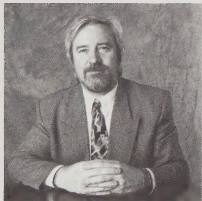
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DOUG MCCAIG
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Municipal Electric Association*



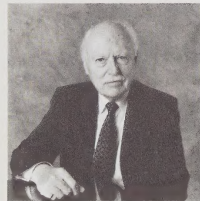
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Anne Noonan & Associates Inc.*



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International Development
Research Centre*

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AVCO Financial Services*

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Chairman, Board of Directors

Dr. Allan Kupcis
President (& Chief Executive Officer, effective Jan. 26, 1995)

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Norm Simon
Sr. VP, Strategic Planning, Environment & Communication

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Ian London
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Vacant
EVP & Managing Director

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Jim Burpee
General Manager, Fossil

Karen Robinson
General Manager, Hydroelectric

CUSTOMER SERVICES GROUP

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General Manager, Grid System Operations

Dave Goulding
General Manager, Electricity Exchange

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CORPORATE BUSINESS GROUP

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EVP, CFO & Managing Director

Dane MacCarthy
Senior Vice President, Human Resources

Carol Lawrence
Vice President, Business Services

John Mulligan (acting)
Treasurer

¹non-executive chairman

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 Ashley, M.J.
 Cassidy, M.
 Cummings, K.C.
 Harvey, D.
 McCaig, D.

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 Brooks, D.B.
 Cummings, K.C.
 Etherington, W.
 Harvey, D.
 Murphy, J.D.

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 McVey, E.
 Runnalls, O.J.C.
 Sawchuk, A.
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 Wallace, D.M.

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 Hinds, J.S.
 Kerr, D.W.
 Kupcis, O.A.
 Murphy, J.D.
 Runnalls, O.J.C.
 Strong, M.F.

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 Cummings, K.C.
 Harvey, D.
 McCaig, D.
 Murphy, J.D.
 Noonan, A.A.

ADHOC ONTARIO HYDRO

INTERNATIONAL INC.

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 Sarlos, A.
 Sawchuk, A.
 McCaig, D.
 Mathur, R.M.

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 Cassidy, M.
 Etherington, W.
 McVey, E.
 Strong, M.F.
 Wallace, D.M.

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 Kupcis, O.A.
 Mathur, R.M.
 Sarlos, A.
 Sawchuk, A.
 Wallace, D.M.

NUCLEAR SAFETY REVIEW

Runnalls, O.J.C. – *Chair*
 (1994)
 Ashley, M.J.
 Beck, N.
 Brooks, D.B.
 Cummings, K.C.
 Harvey, D.
 Hurley, A.M. (Chair, 1995)
 Kupcis, O.A.
 Mathur, R.M.
 McCaig, D.
 McVey, E.

POWER SYSTEM OPERATIONS

Runnalls, O.J.C. – *Chair*
 Beck, N.
 Brooks, D.B.
 Kupcis, O.A.
 Mathur, R.M.
 McCaig, D.
 McVey, E.
 Murphy, J.D.

STRATEGIC ISSUES

Strong, M.F. – *Chair*
 Beck, N.
 Cassidy, M.
 Clitheroe, E.
 Dicerni, R.
 Etherington, W.
 Kupcis, O.A.
 Mathur, R.M.
 McCaig, D.
 Murphy, J.D.
 Sawchuk, A.

TRANSACTION REVIEW

(called at the discretion of the
 Chairman)
 Strong, M.F. – *Chair*
 Cassidy, M.
 Hurley, A.M.
 Kerr, D.W.
 Mathur, R.M.
 Noonan, A.A.
 Runnalls, O.J.C.
 Sarlos, A.

Note: Where the Chairman and President are not formal members of a Committee, they shall be deemed exofficio members.



Corporate Citizenship Program

A new Corporate Citizenship Program was approved by Ontario Hydro's Board of Directors in 1994. It provides a strategic approach to Ontario Hydro's financial support of non-profit organizations who demonstrate innovation in the fields of energy education, sustainable development and employment equity. To find out more about the program, please call 1-416-592-2991.

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